

MoneySense COVER STORY

# The 50 best ways to grow your money

From smart investing  
to automatic saving, we show you how to  
reap a bumper crop  
of profits

**BY MONEYSENSE STAFF**

PHOTOGRAPHS BY DARREN BRAUN

**W**hen we set out to look for the 50 best ways to grow your money, we had a few criteria in mind. We wanted ideas that were widely

applicable (so we weren't interested in specialized tax shelters or tax loopholes that were only open to a favored few). We also wanted ideas that had stood the test of time (so we rejected a lot of flavor-of-the-month notions, such as buying gold futures or loading up on oil stocks). Finally, we wanted our ideas to represent the full span of personal finance, from basic notions to more advanced concepts.

We were delighted with the 50 ideas that made our final roster and we hope you will be too. They run the gamut from investing to saving to spending to estate planning. Have a tip you think should be included? Drop us a line at [letters@moneysense.ca](mailto:letters@moneysense.ca). We're always happy to expand our list. ►



**1 PAY YOURSELF FIRST** This is the single best money tip of them all and it's easy. Just set up an automatic payroll deduction that will whisk away 5% to 10% of your paycheque before you ever see it, and deposit that amount in a good, low-cost mutual fund. Soon, with no effort on your part, you'll have a healthy nest egg. Why does this trick work so well? Because most people find it hard to save money by sticking to a budget—it's just too tempting to spend what's left over. But if you make saving an automatic first priority, you quickly adjust to living on the cash that remains.

## THE EIGHT COMMANDMENTS

**2 USE THE CALENDAR** to your advantage, says Barb Garbens, a fee-only financial planner at BL Garbens Associates Inc. in Toronto. By contributing to your RRSPs at the beginning of the year rather than at the end, you can enjoy an extra year of tax-free compounding. And by paying your mortgage weekly or biweekly instead of monthly, you can pay off your mortgage years faster than someone who sticks to a monthly schedule.

**3 GET REAL**—about your expectations, that is. Advertisements depict a world in which everyone makes a six-figure salary, retires at 55 and earns 15% a year on their investments. The reality is different. Most Canadians make under \$50,000 a year. The typical man retires at 63, the typical woman at 60. The median return of balanced mutual funds over the past five years has been a meagre 5%. What do all these numbers mean? That you shouldn't stress if you're not on track to retire in your mid-fifties—and that you should be very suspicious of fast-talking brokers who promise you 20% annual returns.

**4 THINK TWICE** before hiring someone to take care of a job you could do yourself. Why? Because you earn money in pre-tax dollars, but you pay bills in after-tax dollars. Thus, many middle-class earners will discover that paying an \$800 landscaper's bill (in after-tax dollars) really costs them nearly \$1,500 in before-tax salary. Think about it: if you do the landscaping yourself, you're giving yourself the equivalent of a \$1,500 raise.

**5 PICK A DATE**—New Year's Day, for instance, or Canada Day—and draw up a net worth statement on that day every year. Begin by listing your assets at their current value. This includes your house, your car, your RRSPs, and anything else you own. Then subtract your liabilities—the amount you have left owing on your mortgage, your credit card and other loans. What remains is your net worth. If it's going up every year, that's great. If not, start asking questions.

**6 REPEAT AFTER US: TIME IS MONEY.** Literally. Every dollar that you invest now will double in 12 years, assuming a 6% annual return. So even if you don't feel particularly wealthy in your 20s and 30s, try to put away what you can, either by investing or by paying down your mortgage and other debts. You'll be pleased you did when you look at your net worth in your 40s and 50s.

**7 LEARN THE VIRTUES OF STANDING STILL.** The biggest single mistake that people make in trying to build their wealth is being too active—they flip in and out of investments and chase yesterday's hot mutual funds or stocks. Problem is, yesterday's winners are often tomorrow's losers. What's more, the transaction costs of jumping in and out of investments can eat up profits. So avoid frequent trading. Never buy an investment—whether it's a house, a stock or a fund—if you're not prepared to hold it for the next 10 years.

**8 SPEND LESS THAN YOU MAKE.** This is still the only way to build wealth—and it's easier than you may think. Just promise yourself not to increase your spending when you get a raise at work or a windfall of some other type. Instead, bump up your automatic payroll deductions by the after-tax amount of the raise, and soon you'll be soaking away barrels of cash, without having to give up anything you currently enjoy. ▶

# 9 DISTINGUISH BETWEEN BAD DEBT AND GOOD DEBT. Bad debt is

money you borrow to purchase something that quickly declines in value—a vacation, clothes, restaurant meals. Good debt is money you borrow to buy things that can go up in value or increase your earnings potential: an education, stocks, bonds, mutual funds, a house.

# 10 PAY OFF YOUR CREDIT CARDS and mortgage before beginning to invest.

Chances are you'll earn a higher rate of return from erasing loans than from playing the stock market. Paying down your credit card, for instance, guarantees you a risk-free after-tax return of about 18%. To achieve a similar return through investing, you would have to earn more than 25% before tax and you would have to take on risk.



# 11 ATTACK DEBT systematically rather

than trying to pay the same amount to everyone. Start by paying off your highest-interest debt—credit card debt is usually the worst. Then move on to car loans and your mortgage. If you're carrying a lot of high interest rate debt, talk to your bank about the possibility of taking out a lower cost consolidation loan, backed by your home, and use that money to pay off your most expensive debt.

# 12 NO ONE SHOULD PAY A FEE TO USE A CREDIT CARD when

there are better cards out there for free. For instance, the TD Gold Select Visa offers purchase protection, extended warranties, travel accident and car rental insurance, emergency travel assistance and preferred rates at Budget—all for an annual fee of zip. If you want rewards, the Citi Enrich MasterCard and Capital One 1% Cash Rebate Platinum MasterCard give you 1% of your money back, the TD GM Visa card gives you up to 3% back towards a GM vehicle, and the President's Choice Financial MasterCard hands you a break on groceries. Best of all, none charge an annual fee.

# 13 DON'T LEASE CARS. When you lease,

you're paying a premium to drive a new vehicle, plus you're essentially financing almost the entire cost of your new car. That's fine if you absolutely must have a new car every three years, but not a great strategy otherwise. You'll almost always save money by buying a car and driving it for five to 10 years.



# 14

FOR A TRULY UNBIASED LOOK at your finances, hire a fee-only financial adviser that you pay by the hour. These folks don't have a conflict of interest. In contrast, most conventional advisers earn their incomes from selling you mutual funds and other products and have a built-in bias as a result. While fee-only advisers charge \$200 to \$300 an hour, they can be cheaper in the long run than conventional advisers. And they're certainly more objective.

# 15 NEVER ACCEPT YOUR BANK'S FIRST OFFER without

asking if a better deal is available. Whether you're buying a GIC or negotiating a mortgage, bank reps usually have a bit of room to negotiate. If you're a good customer, point out that fact—and suggest you'll look elsewhere if you can't get a slightly higher interest rate on your GIC or a lower rate on your mortgage. ▶

**16** **USE MORTGAGE BROKERS** and insurance brokers to help you shop for the best deal in their respective areas. Unlike salespeople who represent just a single bank or insurance company, brokers can show you products from several firms and steer you to the best deal. An insurance broker can compare features of policies from competing companies; similarly, a mortgage broker can offer you deals from dozens of small lenders that you would otherwise have missed.

**17** **OPEN A PRESIDENT'S CHOICE OR ING ACCOUNT.** Both these banks operate primarily through websites and over the phone with only a limited number of ATMs and physical locations. The benefit is that they offer higher interest rates on your savings and lower fees than the Big Five banks. What's not to like about that?

**23** **DON'T BUY LIFE INSURANCE YOU DON'T NEED.** The only good reason to purchase a policy is if someone will suffer financial distress from your death. So if you're single, you probably don't need insurance. And if you're married with kids, you don't need policies on your kids' lives. (If—heaven forbid—anything were to happen to your children, you would be grief-stricken, but you wouldn't suffer a financial loss, would you?)

**24** **PUT EXTRA MONEY TOWARD YOUR MORTGAGE.** Your return will beat anything you could get on a GIC or mutual fund. For instance, if you have a \$250,000 25-year mortgage at 5% and you pay \$200 a month on top of your regular payments, you'll save \$40,000 in interest and pay off your home five years sooner, says Andy MacDonald, president of MortgageBroker Inc. in Mississauga, Ont.

**25** **CONSIDER MANULIFE ONE,** a product which merges your mortgage with a line of credit and a chequing account. Any cash you deposit immediately reduces your mortgage total; any cheque you write adds to your total owing. Result? You never have idle cash lying around.

## THE CONSUMMATE CONSUMER

**18** **DON'T BUY EXTENDED WARRANTIES** on your new TV or computer. Manufacturers and retailers know precisely how likely a product is to malfunction and they price warranties to yield a generous profit margin for themselves. You're usually better off to pay for repairs or a replacement yourself. Besides, if your new TV does break down three years after you buy it, how likely is it that you'll be able to find the receipt?

**19** **ORDER YOUR CREDIT REPORT** and make sure that the information it contains is accurate. Errors are more frequent than you may

think, and since those errors can determine the terms on which you get credit, it pays to be vigilant. Canada's three major credit bureaus—Equifax, TransUnion and Northern Credit—are obligated to mail you a copy of your report for free upon request.

**20** **PASS UP YOUR ADVISER'S PITCH** for expensive whole-life and universal-life policies and buy a renewable term-life policy instead. Such a policy typically covers you for either 10 or 20 years and is far cheaper than the alternatives. When the policy expires, you're guaranteed to be able to renew it, so you can extend your coverage if you wish.

**21** **TERM-LIFE POLICIES** can vary hugely in cost, so check out quotes from rival firms at [term.ca](http://term.ca) or [term4sale.com](http://term4sale.com) before you buy. An insurance broker can help steer you through the competing choices.

## THE BEST INSURANCE

**22** **RAISE THE DEDUCTIBLE** on your car or home insurance and your premiums will plunge by as

**26** **IF YOU'RE SENDING JUNIOR OFF TO UNIVERSITY,** consider buying him a house. That's right—if you buy a home at the right price, and your teenager acts as the property manager and rents out rooms to other students, you can often turn a profit when you sell the house upon your child's graduation. Even if home prices don't go up, you can usually count on housing your offspring for free for four years.

much as 40%. For instance, simply raising the deductible on your home insurance from \$500 to \$5,000 could cut the insurance bill for a three-bedroom Toronto home to \$420 from \$700. While you're at it, find out how much you could save by insuring both your car and your house with the same company. Most insurers offer a discount to people who give them all their business.

## BRING IT HOME

**27** **INSIST ON A BETTER DEAL** from your real estate agent when it comes time to sell your home. Especially if you're listing a pricey property in a hot market, ask your agent to discount the standard 6% commission. Alan Silverstein, a Toronto real estate lawyer, says you can often get an agent down to 4% or lower if he or she thinks your house will sell quickly. Saving a couple of percentage points will mean \$6,000 more in your pocket on the sale of a \$300,000 home. ►

**28 TAKE ADVANTAGE OF THE SMALL STUFF**, says Lee Bernstein, a tax accountant in Toronto. You can write off the cost of a safety deposit box, for instance. Two-income families can also deduct the cost of kids' after-school lessons and summer camp if those expenses allow the parents to work and earn money. Moving expenses incurred to take a job elsewhere in Canada are deductible; as are tax preparation fees in some cases. And don't forget medical and dental expenses—you can miss out if you don't keep receipts.

**29 INVEST RIGHT TO AVOID TAXES.** The key is to remember that capital gains and stock dividends enjoy tax breaks, while interest payments from bonds and GICs don't. So keep any bonds or GICs you own in your RRSP. If you run out of contribution room, your stocks and stock-based mutual funds can remain outside your RRSP without inflicting too much tax damage.

**34 DIVERSIFY**—you'll be glad you did. Holding a varied portfolio ensures that no single disaster can blow a hole in your nest egg; it also guarantees you'll have a part of any good news going. To ensure you're diversified, make sure that your holdings include both stocks and bonds. Your stocks should span several industries, rather than being concentrated in a single sector. They should also be geographically diversified, with Canadian, U.S. and international firms in the mix.

**35 THINK IN TERMS OF YOUR PORTFOLIO**, not individual stocks or funds. About 90% of the difference between the returns of different portfolios comes down to broad decisions about which types of assets to buy, rather than narrow decisions about which specific stocks, bonds or mutual funds to hold. The classic blend is to put 60% of your holdings in stocks and 40% in bonds. Conservative investors may want to reverse those proportions, while aggressive investors may want to drop the bond component to 20%.

**36 STEAL OTHER PEOPLE'S IDEAS.** Unlike students writing a university essay, investors get rewarded in their portfolios for copying the work of the smartest people they know. One of our favorite sites is [www.gurufocus.com](http://www.gurufocus.com), which tracks the commentary and holdings of more than 25 great investors, including Warren Buffett.

**30 THE BIGGEST, BEST TAX LOOPHOLE** is contributing to an RRSP. Yep, we know it sounds mundane—but it's also true. So stop whining and make that contribution.

**PAY  
LESS  
TAX**



**INVEST  
LIKE A  
PRO**

**38 CUT YOUR COSTS.** This is the single best way to juice your returns. Despite what you may think, paying more for money management doesn't improve results. So look at low-cost index funds or exchange-traded funds (ETFs). If you truly want an active manager, pick a fund with a below-median management expense ratio to ensure profits stay in your pocket. ►

**31 BEAT THE TAXMAN** by re-arranging debt. In general, interest on money you borrow to invest is tax deductible, but interest on money you borrow to spend isn't. So rather than using your savings to buy stocks and borrowing to buy furniture, switch it around: by borrowing cash to buy stocks and using savings for the sofa, you turn the interest into a tax deduction.

**32 GET HELP.** If you find a tax accountant you like, stick with her—she can suggest ways to minimize your taxes. Software can also make your return a snap. QuickTax, TaxWiz and UFile each cost less than \$50, but save you hours of tedium.

**33 SPLIT INCOME WITH YOUR SPOUSE**, both now and in retirement. By making your incomes as equal as possible, you'll minimize the overall tax that both of you will pay. One strategy is for a high-earning spouse to contribute to a spousal RRSP for his or her stay-at-home partner. If you run your own business, you can cut your family's overall tax bill by employing your lower earning spouse—or kids—to perform some tasks you would otherwise have to do yourself.

**37 FOLLOW OUR COUCH POTATO STRATEGY**—it beats

80% of the money managed by professionals over the long term and requires only 15 minutes of your time each year. For step-by-step instructions on how to become a Couch Potato, click over to [www.moneysense.ca](http://www.moneysense.ca).

**39** SELL YOUR LOSING STOCKS. Yes, we know it's hard.

So to cut through the rationalizations, imagine you're just starting out with a wad of cash in your hand and no stocks in your portfolio. Would you buy each stock you own now at its current price? If not, it's time to sell the ones that don't make the cut. (Heck, think about the tax savings you'll get from declaring your capital loss.)

**40** STOP-LOSS ORDERS can be an investor's best friend. By using a stop-loss order, you choose your selling price ahead of time. If and when your stock hits that price, your broker automatically sells it. Whether you want to put a limit on your potential losses or lock in profits when your investment hits a new high, a stop-loss order prevents you from getting carried away by your emotions. Contact your broker or discount broker to find out the details.

**44** PROTECT YOURSELF FROM STOCK MARKET SLUMPS in retirement by keeping five years' worth of living expenses invested in a "ladder" of safe bonds, with one fifth of your holdings maturing each year. That way you can live off the money from your maturing bonds during a market downturn, and you won't end up decimating your portfolio by cashing in stocks when they're down.

**45** MAKING A WILL doesn't take a lot of time, it doesn't cost much, and it can save your heirs thousands in taxes and legal fees as well as legal squabbles. If you can avoid all that by hiring a lawyer to draft a will for \$200 to \$300, why wouldn't you?

**47** MAKE USE OF REGISTERED EDUCATION SAVINGS PLANS

(RESPs). After you open one of these plans at your local bank, you can contribute up to \$4,000 a year per child to a lifetime limit of \$42,000. The money grows tax-free until it's withdrawn for your child's education. But here's the even niftier part: the federal government gives you an immediate top up for each contribution. The amount of the grant varies according to your family income, but it's worth a minimum of 20% of the first \$2,000 per child you contribute—in other words, \$400 a year for free. Sounds like a deal to us.

**INVEST LIKE A PRO****41** KEEP A TRADING JOURNAL in which you explain the reasoning behind each of your investing decisions as you make it. This is one

of the best ways we know to improve your investing results and learn as you go. The mere act of writing your reasons down forces you to be logical. And reading about the reasons behind some of your biggest blunders helps pinpoint recurring errors.

**43** COUNT ON A GOVERNMENT PENSION. Most of us will get more from Ottawa than we think. A married couple with no savings or company pension can expect \$24,000 a year from all government sources when they retire; the average combined payout from just the Canada Pension Plan and Old Age Security is now almost \$11,000 per retired person a year.

**42** BE REALISTIC about how much you can withdraw from your retirement portfolio each year. Many new retirees assume they can spend 7% to 10% of their nest egg every year. That's fine in a rising stock market, but if the market slumps and you keep taking out that much, you'll quickly run down your savings. Studies agree that to make your money last you should count on withdrawing only about 4% a year.

**RETIRE WELL**

**46** TALKING ABOUT WILLS, our advice is to talk about wills. Most feuds over wills come about because parents don't communicate their decisions to their kids while they're alive. When the will is read, heirs are surprised, feelings are bruised, and nastiness ensues as sibling turns on sibling. So, before you make a will, talk it over with everyone involved. Then, after you have the will, keep on talking—the best will is one that surprises no one when it comes time to use it.

**ALL IN THE FAMILY**

**48** LIVE CLOSER TO WORK. Many of us underestimate the true cost of commuting, both in terms of stress and in terms of dollars. Case in point: The Canadian Automobile

Association calculates a husband and wife can spend \$140,000 over five years making the one-hour commute from Hamilton, Ont., to Toronto in separate Chevy Cavaliers.

**49** MONEY ISN'T EVERYTHING. Switching to a new job where you have more trust in management brings you as much happiness as a 36% pay raise, according to a recent study by economists John Helliwell and Haifang Huang at the University of British Columbia. Switching to a job that offers more variety is like getting a 21% pay raise, and getting a position that requires a high level of skill is worth a 19% raise.

**50** GIVE YOUR KIDS PART OF THEIR INHERITANCE while you're still alive. A bit of cash when your kids are in their 30s could save them a fortune in mortgage interest—and you'll enjoy being around to see the difference your money makes. ■