ALIGNED capital partners inc.

LGK INVESTMENTS

GARY KOSS

LGK INVESTMENTS OF ALIGNED CAPITAL PARTNERS INC.

Suite 304, 9945 50th St NW
Edmonton, AB T6A 0L4

Office: (780) 426-2400
Fax: (780) 423-0311

gkoss@alignedcp.com

www.LGKWealth.ca

Putting Away a Little at a Time

November 14, 2018

In 1989, David Chilton published one of the most well-known financial books in Canadian history, The Wealthy Barber. The book describes the importance of regular savings and investment (i.e. 10% of all that you earn) in order to achieve financial success.

There are three good reasons (possibly more) why setting up a regular, monthly saving plan is a great way to approach investing for your future. They are as follows:

1. Forced savings
2. Eliminating the need or desire to time the market
3. Compound growth

Forced Savings

When was the last time you made a lump sum deposit into your RRSP, TFSA, or investment account? Do you consistently write cheques or make e-transfers every month to your children's RESPs? Many people find themselves looking at their monthly cash flow and thinking to themselves, "I think I'll wait until I get my year-end bonus, or CRA tax refund and then I'll put that money away". Unfortunately, as we all know too well, a good chunk of those annual windfalls are already accounted for by the time you receive them, and that leaves you short of the money you were hoping to save. The bottom line is that you're always feeling short. So, what is the solution? If you put away a little bit every month, you'll be surprised at how much you'll accumulate. Let's consider an example. Joe is 35 years old. He buys coffee and lunch for himself every day. This costs him $10 dollars a day. This means he's spending $50 a week and about $200 a month. Now let's imagine Joe decides to bring his lunch every day and make his own coffee. Imagine that he instead saves $200 a month until he's 65 years old. Over the course of the next thirty years he would save $72,000. Not bad, and we haven't even factored in investment returns yet. Let's look at market timing.

Eliminating the Need or Desire to Time the Market

One of the reasons that people hold off on regular savings and investing their money is because they're nervous about the market. As we've discussed in previous articles, it's hard not to feel nervous sometimes isn't it? There always seems to be problems either occurring right now in the economy or else they seem to be looming on the horizon.

ALIGNED capital partners inc.

LGK INVESTMENTS

GARY KOSS

LGK INVESTMENTS OF ALIGNED CAPITAL PARTNERS INC.

Suite 304, 9945 50th St NW
Edmonton, AB T6A 0L4

Office: (780) 426-2400
Fax: (780) 423-0311

gkoss@alignedcp.com

www.LGKWealth.ca

However, that's one of the things that a regular monthly contribution is designed to combat. By buying into a strategy with a little bit of money every month, you're allowing yourself to average into your investments. This means that you're sometimes buying securities when the capital markets are a little expensive, but it also means that you'll be investing when the market is doing poorly as well. This may not feel very good to you; however, you will actually be doing what every investment textbook in history has told you to do: "buy low". In the long run, say over 30 years like in our example for Joe, we expect the economy to grow and would like to take part in that growth, regardless of the short-term fluctuations of the most recent corporate, economic and political events.

Compound Growth

Consider an investor that has $100,000 and that they buy a GIC that pays an interest rate of 3%. At the end of the year, they will have $3,000 which they go and spend on the things that they need. Over a thirty-year period, the investor would have earned and spent $90,000 ($3,000*30). This example uses "simple" interest to calculate an investor's savings.

Now let's assume that the investor doesn't need the money and saves that $3,000, adding it to the original pool of $100,000. When you add that money to the original investment, it also begins to earn interest. In finance, we use the term "compound interest" to describe it because you're now earning interest on the interest you earned on your original deposit (i.e. $100,000). Assuming this same scenario takes place every year for the next 30 years, at the end of 30 years, the investor will end up with $242,726.25.In other words, instead of earning interest of $90,000 and spending it, our investor earned $142,726.25 simply by reinvesting his interest and allowing it to compound.

Now let's go back to our 35-year-old Joe. He's decided to start packing his own lunch for work and to use the in-house free coffee machine that his work provides. He's also done a bit of budgeting and he's found an extra $200 dollars a month that he can save. So, he now has $400 per month which he has decided to save into a new Tax-Free Savings Account that he has set up at LGK Investments of Aligned Capital Partners Inc. His advisor Gary has recommended a diverse portfolio of investments and he is excited and proud of himself for the effort that he's made. If we assume that this investment strategy earned 6% a year over the next 30 years (note: these returns are strictly an example and don't represent actual expected returns), Joe would retire at age 65 with $401,806. Taking our example one step further; if we assume Joe retires at age 65 and lives until age 90, that $401,806 in investment savings would allow him to spend an extra $2,500 a month throughout his 25-year retirement without running out of money.

This seems to be a pretty amazing feat for only $400 per month doesn't it?

There has long been a quote credited to Albert Einstein where he is said to have stated: "Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it. Compound interest is the most powerful force in the universe." Whether or not he actually did say this is open to debate; however, it's a great quote and given our examples above, a worthy goal to aspire to.

To take full advantage of this benefit, you must first find the monthly savings, and then create the investment approach that you feel most comfortable investing into every month (rain or shine). Perhaps our team at LGK Investments of Aligned Capital Partners Inc can help you take this next step.

ALIGNED capital partners inc.

LGK INVESTMENTS

GARY KOSS

LGK INVESTMENTS OF ALIGNED CAPITAL PARTNERS INC.

Suite 304, 9945 50th St NW
Edmonton, AB T6A 0L4

Office: (780) 426-2400
Fax: (780) 423-0311

gkoss@alignedcp.com

www.LGKWealth.ca