

Interview with
“Canadian Capitalist”
Personal Finance Blog

By Margot Bai

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CC: I learnt from an interview on your website that you've spent five years writing this book. What was your motivation in writing this book?

MB: I've read a lot of personal finance books and found many of them to be dry and boring. I wanted to write something that would be fun and easy to read, with lots of stories, to inspire people to save money in the most effective ways. I wrote *Spend Smarter* not only to teach people the best ways to save, but to inspire them to want to save because of the tremendous benefits that follow.

The irony is that the path to financial freedom requires financial discipline. The only way that we will make the sacrifices necessary to succeed is to step back and see the big picture. When you recognize what is possible financially, if you play your cards right, that is when the rules of the game will start to interest you.

CC: Saving advice is usually targeted at the younger crowd who are just starting out in life. Did you have a specific audience in mind in writing this book?

MB: My goal was to write a book that would appeal to a broad swath of the population. The topics in my book are the big expenses we all face. Younger people tend to have more of their major expenditures still ahead of them so they will get the most benefit. But anyone struggling with debt or concerned about boosting their savings for retirement will also find my book helpful.

CC: Some popular books on personal finance advise us to cut out the daily lattes and muffins to get ahead financially. You took the opposite tack and recommend that Canadians find big savings on their biggest purchases. Why?

MB: While we all enjoy occasional treats, few of us spend significant amounts of money this way. But most people eventually buy a home, get a mortgage, and buy vehicles, insurance and investments. Obviously saving on these big expenses is more effective than skipping the occasional take-out dinner.

Part of the reason why the idea of big savings hasn't been adequately covered before is that the big savings often come out of the pockets of the financial service providers who normally shell out advice. Financial advisors would rather get you pinching pennies to have more money to invest because they earn commissions from the fees on your investments.

Big savings also come from creating an affordable lifestyle, particularly in terms of our homes and cars. This can be a hard sell with consumers who have embraced a bigger-is-better mentality. Many people believe that living life to the fullest today is most important. Reality is starting to set in for many baby boomers, who are only now realizing that there just isn't enough money to retire at age 65, let alone 55.

We no longer live in a society where you can just work and spend, pay off your mortgage in 25 years and expect to retire on government and work pensions at 65. Being able to retire at all depends on saving effectively. Even Chilton's well-respected book, *The Wealthy Barber*, seems antiquated when you realize that with longer life expectancy and aspirations for early retirement, for many people saving 10% just isn't enough

CC: Your book is packed with excellent advice on saving money. If there is only one piece of financial advice you could give, what would it be?

MB: Take responsibility for your financial future by educating yourself about money. Do not rely solely on the advice of a financial advisor: no advisor can or will take responsibility for making *your* dreams come true. It is your life and no one cares more about how it turns out

than you do.

Financial services, like anything else, are a buyer-beware situation. You must learn about the options and risks and understand all the implications when you sign contracts for things like mortgages, insurance and investments. Take time to research low-cost alternatives to traditional financial services – no commission-based advisor will tell you about them. When you understand all the alternatives, you can accept some risk and responsibility in exchange for significant savings.

CC: I was especially impressed with your advice on investing. Given that you also practice what you preach, how did you arrive at the conclusion that low-cost investing is very important?

MB: The topic of mutual fund fees is a controversial one. People who earn their living from these fees uniformly discount their importance. Conversely, independent sources are quite scathing about the negative impact of higher fees on returns.

The MER (management expense ratio) is charged regardless of whether the fund goes up or down in value. This is a great arrangement for mutual fund companies and salespeople, and not so great for consumers. Since there is no relationship between fund performance and fees, there is no incentive for fund managers to ensure their funds out-perform or for advisors to ensure they choose top performing funds for you.

Anyone can look at past performance and point out funds with high fees that have done well. But no one can guarantee which mutual funds will be star performers next year. The one thing we do know however, is that, *on average*, funds with lower fees out-perform funds with higher fees because of the effect of fees on returns. When you look at compound growth charts, a difference of just 1% or 2% in returns can translate into hundreds of thousands of dollars over a 30 year investment time horizon.

The logical conclusion is that investing in low-fee funds gives us the best chance for top returns. The savings are significant and well worth the extra effort involved in choosing a low-fee mutual fund company and taking responsibility for our own financial future.

This interview appeared on the Canadian Capitalist personal finance blog on February 5, 2007:

<http://www.canadiancapitalist.com/2007/02/05/interview-with-margot-bai-part-i>

See also Canadian Capitalist's rave review of **Spend Smarter, Save Bigger**:

<http://www.canadiancapitalist.com/2007/01/30/book-review-spend-smarter-save-bigger>



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