

Market Correction, Lifestyle Correction

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Stock markets have fallen at shocking rates, wiping out the hard earned savings of so many Canadians. It is frustrating to realize that the cause of this market collapse was essentially greed: the greed of the mortgage lending companies largely in the US that ignored basic fundamentals of lending by approving mortgages to people who simply could not afford them. It amazes me to realize that such obviously poor business practices could be so widespread and go on for so long as to undermine the entire economic system when the bubble finally burst.

For a young investor like myself, it is not devastating but at times feels that way. At 35 years of age, I have no immediate plans to retire. A market recovery is inevitable, it is only a question of time. Yet seeing my hard earned retirement savings slashed by more than a third is a frustrating setback. Sadly for many older investors, the market tumble is truly devastating, wiping out assets that they were relying on and that they no longer have the ability to replace through employment. My own mother sold her home of 27 years in 2007 and on the advice of her financial advisor invested the entire proceeds in equity markets. When I questioned him about this at the time, he said that at 68 years of age, my mom needed to invest in equities for the long term. How I regret not challenging him on his answer. Since then, the value of that investment has been cut in nearly half and she has been diagnosed with dementia. Her living costs are escalating due to daily in-home care and she will likely need to move to a long term care facility within a few years. For her, a market recovery cannot come soon enough.

What have I learned from this? I guess we all have to go through a major market correction to truly understand the risk we take when we invest in the stock market. I learned that despite the “intelligent market” theory that states the market is always correctly valued, it is possible for enough of us to be duped into creating a market run-up that has no substance behind it. I learned that after all the rhetoric about time in the market, there is something to be said for timing the market too. No, I still don't have a crystal ball. But there were no shortage of contrarian investors warning that the market was overvalued for those who were listening. Further, markets had been increasing steadily since

the US invaded Iraq in 2002 – history tells us that markets cannot go up forever. When I am approaching retirement and markets have had a good run up, I'm going to be moving my money out of equities.

While markets readjust back to reasonable levels, our lifestyles are forced to do the same. For many who have seen their home equity falling, their investments slashed or even lost their jobs, the high consumption, disposable lifestyle is no longer an option. While this adjustment is not always easy, it helps to realize that the good life is about experiences and relationships, not stuff. Spending our time going for walks in the woods or visiting with friends is more fulfilling than another trip to the mall. Plus, boosting our savings in the present is beneficial toward building wealth in the long term.

The key idea behind my book, *Spend Smarter, Save Bigger* is to find BIG savings on life's biggest expenses. In these hard times, big savings are more important than ever. Finding big savings boils down to creating a lifestyle that allows you to live comfortably while saving a significant portion of your income. The savings you create can be directed toward paying down consumer debt, investing inside an RRSP or Tax Free Savings Account (TFSA), or accelerating the payments on your mortgage. With interest rates at historic lows, now is a great time to make headway on your mortgage principle! All of these things will help strengthen your financial foundation during these tough times and put you in a good position to grow in the good times that are most certainly ahead.

Since the *biggest* savings can be found on our *biggest* expenses, now may be a good time to reassess your situation and see if some *big* changes might be in order. It's time to ask some tough questions:

Home

Can you still afford the home you are living in? Even if you find yourself in over your head, trying to sell a home in this soft market may not be a good move. Plus there are many expenses associated with selling and moving. However, your home is an asset, particularly if you have extra space you are not using. Consider renting out your basement or even a room in your house. Talk to your friends: they may know someone who is also going through a tough time and needs a more affordable living situation for awhile. What a perfect way to help yourself and someone else save money

in these hard times! It doesn't have to be forever, but it may help bridge a gap in employment or just provide some extra cash.

Mortgage

Have you locked in at a higher rate? Rates are once again at shocking lows – prime at the time of writing was 2.5%! It may pay to break your mortgage to switch to a lower rate. Call your bank to find out the penalty fee to break your mortgage and best rate you can get on a 1 year term or open variable mortgage. Also, make sure the bank doesn't charge you the penalty fee on your allowed pre-payment amount – you will have to ask for this otherwise they will. Do the math and don't be too proud to admit that you made a mistake by locking in. I've been there: by breaking my mortgage in 2002, I not only saved back the \$2400 penalty fee I paid, but an additional \$5000 in interest savings in the final year.

Commute to Work

Are you or your spouse spending an hour or more getting to work each day? Does your family have two cars specifically because you need them to get to two different workplaces? Consider alternatives such as transit or carpooling together or with workmates. Ultimately, it might be time for you to either move closer to your work or start looking for a job closer to home. I realize fully that this is no small assignment. But the benefits to your quality of life and pocketbook cannot be overstated.

My husband and I have been a one car family our entire marriage of over 10 years. In fairness, we have also had a motorcycle for the past 6 years but we still needed to have a way to get to work with one car in the winter. We did it by choosing to live close to work so that we could car-pool with workmates and use public transit where practical. Recently I just switched to an office even closer to home. This wasn't an easy transition but I am confident that it was worth it. Moving forward, this will allow us to carpool together and instead of relying so heavily on others during the winter months.

Vehicles

If you have an older vehicle that you will need to replace within a few years, start saving now. Make up your mind to buy your next car with cash. If you don't have enough cash when you need to buy, opt for a used car that is a few years old. Don't go to a dealer – you will pay a mark up and GST (although with the recent tax

harmonization the no-GST advantage on private vehicle sales may soon be gone). Search Auto Trader online to find a good deal on a private sale and arrange your own financing with your bank, credit union or other lender. Whatever you do, resist the urge to lease – this is the most expensive option in the long run. Stop letting your car payments drain your wealth – take control of this crucial big expense once and for all.

Investments

In these volatile economic times, the impact of fees on your investments becomes even more salient. Find out the MER or Management Expense Ratio on your mutual funds – the percentage that is charged on your holdings each year regardless of performance. Consider switching to lower fee funds. If you are with an advisor, ask your advisor if there are cheaper funds that he/she can put your money in and still get paid their commission. Or if you are not working with an advisor, consider investing directly with a low-fee mutual fund company like Mawer, McLean Budden or Phillips, Hager & North.

As we all wait for the good times to return, we have a great opportunity to relearn some basic life lessons about living within our means and saving for the future. Big changes are never easy but if you really want to save your money, you've got to make smart decisions on the BIG things. For more ideas on BIG savings, read the first two chapters of Spend Smarter, Save Bigger at www.spendsmarter.ca. Click on Free Reading where you will also find a variety of articles with additional savings ideas.



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