WHERE CAN YOU FIND MORE MONEY TO INVEST?

WOULD YOU LIKE TO SAVE MORE EVERY YEAR? HERE ARE SOME TIPS THAT REALLY WORK

1 Consider going from two cars to one. You could save up to $10,000 a year in insurance, repairs, maintenance and gas costs by running only one car and using public transit for some trips.

2 Pay yourself first. Set up an automatic transfer to your RRSP, TFSA or other savings account every two weeks to coincide with your paycheque. You won't even miss the money after a while, and if you save enough automatically, you can spend the rest guilt-free.

3 Cancel that expensive gym membership. You can easily spend up to $800 a year at a high-end club. Instead, look to programs at your local recreation centre—the fees can be as low as $10 a month.

4 Install a programmable thermostat. These devices regulate the temperature in your house automatically according to the schedule that you set. You can save 10% to 20% a year on your energy bill.

5 Trim wasted spending. Examine your budget for expenses that can easily be trimmed. For instance, it may be worth raising the deductible on your car or home insurance to reduce your monthly payments. Choosing a $2,000 deductible instead of a $500 deductible can save you 25%.

6 Exploit your benefits. Visit your company's HR department and ask about job perks. You may be eligible for a great pension or low-cost group RRSP, plus company discounts and free workshops and seminars.

A PERFECT PORTFOLIO

Want to build a nest egg that gives you the growth you need while protecting you from crashes? Here's how to do it

All great chefs know the secret to great cooking is mixing the right ingredients in the right amounts. Turns out putting together the perfect retirement portfolio isn't much different. As in cooking, you have to start with the right basic ingredients—in this case stocks and bonds—but if you get the proportions right, the result will be a huge success.

To figure out the right mix for your retirement needs, start with a few simple questions. How long will the money stay invested? How much risk are you willing to take with your savings? How much growth do you need? "The only way to properly answer those questions is to put together a comprehensive financial plan that sets out your short- and long-term financial goals," says Marc Lamontagne, a fee-only adviser with Ryan Lamontagne in Ottawa.

The biggest and most important question you'll likely face is how to balance your risk with the amount of growth you need. Generally speaking, the longer your money is invested the more risk you can afford to take on. But how do you determine your tolerance for risk? "I like to use a questionnaire with my clients," says Lamontagne. "It allows us to open up a discussion that allows us to gauge their risk tolerance. If they're a couple and they each have a very different tolerance for risk, then I generally

A PLAN THAT DOES IT ALL

YOUR FINANCIAL PLAN SHOULD COVER MORE THAN JUST YOUR INVESTMENTS. IT SHOULD ALSO INCLUDE ADVICE ON RETIREMENT, TAXES, INSURANCE, CASH FLOW AND DEBT MANAGEMENT

RETIREMENT

Where will your retirement income come from? You'll likely rely on the Canada Pension Plan, Old Age Security, and your workplace pension plan if you have one. But if that's not enough, your personal savings will have to make up the difference. Think about what age you'd like to retire at and how much you'll need annually to live comfortably once the house is paid off and the kids are gone. Then have an adviser determine how much you should be saving annually and how your portfolio should be invested to make sure you retire with the nest egg that you'll need.

TAXES

If you own your own home and use RRSPs, RESPs, and Tax-Free Savings Accounts (TFSAs), you're already taking advantage of the best tax shelters out there. If you're in a higher tax bracket—that is, if you make $85,000 annually or more—it may be worth paying for a few hours of an accountant's time to see what mix of these investment options is right for you tax-wise.

INSURANCE

Examine what your workplace benefit plan offers and then have your adviser review all your insurance policies—disability, life, auto and home—to make sure that your coverage is adequate. If you need extra coverage, make a note of it so you can include that in your financial plan.

CASH FLOW

Determine how much you spend and save right now by keeping a journal. The result may surprise you. If you're spending more than you make, your net worth may be decreasing every year. "Successfully managing cash flow is your key to financial control," says Karin Mizgala, chief executive officer of Money Coaches Canada. "It will give you an awareness that has more — long-term value than anything you can invest in, buy or sell."

DEBT MANAGEMENT

In general, you should focus on paying off your debt before investing for the future. Comb your budget to see if you can find extra savings to put towards your payments. And make sure to have a plan, such as paying off high interest rate debt first. Also consider renegotiating your mortgage or cutting out one major expense completely—like travel—to pay your debt off quicker. "Do what you can to increase your income, cut your expenses, and start cutting your debt," says Al Feth, a fee-only adviser in Waterloo, Ont. "That will give you the best risk-free return on the bottom line."

help them reach a compromise, keeping in mind that the compromise will allow both of them to reach their financial goals."

To get the maximum return while taking the minimum amount of risk, it helps to think of your portfolio as being split into two parts: an equity portion comprised of stocks, and fixed income portion made up of bonds, GICs and savings accounts. Generally speaking, the higher the percentage in equities, the higher the risk.

Keep in mind that while stocks will earn you a higher return over the long run, their short-term performance is harder to predict. If you're 30 and retirement is a long way away, you can take a few market crashes in stride and still come out ahead, so you can take on more risk. But if you're getting close to retirement, you should probably decrease your stock holdings and go heavier on bonds, as they're more predictable so you'll suffer less damage from a market slump.

> As you get closer to retiring, it's time to dial down the risk and go heavier on bonds

A good rule of thumb is to put a percentage in fixed income that is equal to your age. If you're 40, for instance, you could put 40% in fixed income and 60% in stocks. If you're 60, you could put 60% in fixed income and 40% in stocks. The exact proportions depend on your risk tolerance. You can also help insulate yourself from market declines by building up a pool of cash and GICs, or a short-term bond ladder. If you build up enough to fund three years' worth of expenses, you won't have to sell off stocks when the market is down.

Still, you don't want to get *too* conservative: "If a retirement portfolio is to last you to age 90, it should not be invested only in cash and GICs," says Norm Rothery, a chartered financial analyst and founder of Stingy-Investor.com. "There should be a minimum 25% holding of equity—regardless of age. Such a portfolio actually has less risk than one invested 100% in fixed-income investments because it will protect you from the risk of inflation."

Once you've established the right mix of equities and fixed income, then it's time to choose your individual investments. The investment vehicles you pick depend on several factors, including the amount of time you want to spend on your portfolio. You can buy individual stocks and bonds, but this is best left to more experienced investors. Mutual funds and index funds are likely more convenient and practical.

If you're a new investor, then a simple balanced mutual fund can be a great place to start. "They usually contain a conservative 60% equity and 40% fixed income mix all in one product," says Rothery. Experienced investors who want a more hands-on approach may also want to look at exchange traded funds (ETFs) or index mutual funds.

For a more detailed analysis of the right mix for you, consult a knowledgeable adviser, who can help you pick the perfect investments for your particular situation and goals. Check back with your adviser regularly to ensure that your overall mix and risk level stay on track as your financial situation and time horizon changes.

For more great tips, visit:
www.moneysense.ca/powerofadvice