The Smart Debt Coach

Secrets of the Rich to Increase
Your Wealth and Security

by
Talbot Stevens

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Reviewer Feedback Only

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The Smart Debt concepts in this book should help people in three dimensions: reducing bad debts, increasing cashflow for investing, and improving investment returns.

Any ideas about how this book can improved to make it more valuable for middle- and upper-income Canadians are greatly appreciated.

Feedback in the following areas is most helpful:

- Identify any areas that are **not easily understood**. As a guideline, if you have to reread it, it is not clear enough.
- What 2 or 3 ideas or areas do you think **could be eliminated** because you **didn't find them valuable** ('everyone knows that'), or they **didn't hold your interest**.
- **What 1 or 2 ideas did you like the most**?

Thank you!

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Part One

Gonnabe Rich Fundamentals

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"Rich" Sister, "Poor" Brother

"Gonnabe Rich vs. Appear Rich"

"Honey, what do you think? Should we go?" I asked Michelle as we drove home.

At dinner, my sister, Lisa, had informed us that she and her husband were taking their kids to the Caribbean with them for March break. They had invited us to join them. While Michelle and I generally got away to a warm beach each winter, we had yet to take our kids with us.

"It'd be nice to do a winter vacation with both families," she replied. "The kids would love it – a week of new experiences with their cousins and favourite aunt and uncle. It'd be a trip they'd remember forever. It would be great, but …"

"But what?"

"But do you think we should? I know you love anything to do with the water, but what about the some of the financial issues we've been talking about, like doing more with RESPs while we can? Chris will be finished high school in four years, and Jess isn't far behind.

"We used to contribute a little every year into RRSPs, but since we shifted our focus to paying off our credit cards, we've fallen further behind on our retirement funds. And our credit card balance has only gotten bigger," she sighed. "And have you seen the returns we're getting on what we have managed to invest?"

"I don't like to look," I admitted. "Ignorance is less painful. But these lower returns on equity markets and guaranteed investments sure are making it tougher to build a retirement fund."

"I think we'll have to think about the trip more and get back to them," my level-headed wife continued. "We don't have to make a decision right away. Let's get through the holidays first and re-evaluate in January."

"Good idea," I agreed. "The Christmas season usually leads to our highest credit-card bill of the year. It's hard to imagine adding the cost of a winter get-away for four."

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As I was daydreaming about how great it would be to teach the kids how to sail a catamaran, something my sister had said struck me.

"Did Lisa say that they already paid for their trip?"

"I think so. Why?"

"Because the way she said it, I got the impression she already had the money for it. I didn't get the sense she'd have to add it to their ongoing credit card balance, the way we would have to. But how would that be possible?

"Their combined income is a little less than ours. We all enjoy decent middle-income lifestyles – nice homes, vacations, newer vehicles. But I have the feeling they don't have the same debt and investment concerns that we do."

"I've thought that for a while," Michelle nodded. "And yes, they do make less than we do. I wonder what they're doing differently."

"I don't know. But I know how to find out."

I picked up the phone as soon as we got home.

"Lisa, did you say you already sent a cheque for your family vacation?"

"Not exactly. We pay for everything with our credit card to earn one percent cash back, and then have it automatically paid off through our chequing account each month."

"So you don't carry a credit-card balance like most people do?"

"I used to, when I was in school and just starting out. Back then, I knew almost nothing about money and didn't know any other way to make ends meet," she went on. "But everything changed, gee, over 15 years ago now. I clearly remember the conversation that started it all. It was after Thanksgiving dinner Mom and Dad's. You were there with Michelle, shortly after you got married. I had just finished school, and Dad gave us the only financial advice I can remember him ever giving.

"He handed each of us a business card and said we should both go to see his financial advisor. He said he was a good guy who'd help us understand things about money that the rich know, but that most of us never learn.

"Well, I had nothing to lose. I had no money and I definitely didn't want to go through my whole life that way. And besides," she chuckled, "when your parents tell you to do something, is it ever a good idea not to do it?"

I vaguely remembered the incident. Michelle and I had just moved to London, Ontario, where I had landed a job with a mid-sized shipping and warehousing company.

"But back then, we had no money," I defended myself. "All Michelle and I had were debts from our student loans and our two vehicles. With rent to pay and other expenses, we had no money to invest. I didn't think there would be any point in seeing an investment advisor."

"But Dad didn't recommend a typical investment advisor," Lisa responded. "He recommended an advisor he trusted who dealt with all sorts of financial issues, not just investing. I'm sure I had less money and more debt than you at the time.

"When I met with Brian, he told me that in today's information age, the key to financial freedom – to not having to worry about money and to being able to enjoy a good lifestyle until you're 100 – was easy, regardless of your income. Brian told me that if I agreed to a few things, he would coach me to understand and act on what he called 'the secrets of the rich, so I could enjoy more wealth and security than I ever expected."

"So what did this advisor do for you?"

"Lots," Lisa replied emphatically. "My financial situation kept on evolving – I got married, got a mortgage, needed insurance, all that stuff. But throughout that, he kept guiding us about different ways to deal with our short-term needs while planning for our future.

"Remember about a year after I got married and we both inherited $30,000 when our aunt passed away?" I did. Lisa continued, "At that point, our advisor showed us how to do a 'Debt Swap' to convert our bad debt into good debt. That way, we created tax deductions and grew our investments faster, like the rich do."

"What is a 'Debt Swap?'" I demanded. "What do you mean by bad debt and good debt? Isn't all debt bad and just an unavoidable part of life?"

"I didn't know any of this stuff either, big brother, and ironically, maybe that helped me. I didn't start with any preconceived notions, so I was open to someone showing me better ways to manage debt and free up cash flow to invest. I was an open-minded and eager student. Over the years, Brian showed us the difference between the strategies used by what he called the 'Appear Rich' and the 'Gonnabe Rich.' Most people say they wannabe rich, but they generally only focus on appearing rich. They don't build the attitudes and behaviours that produce real financial security and independence."

"So how do I get in touch with this financial advisor that I should have seen over a decade ago?"

"You can't. He retired about seven years ago."

"You're kidding!"

Great. Just great. I was upset that I was already 15 years behind Lisa in understanding and acting on the secrets of the rich. She was two years younger, had not done as well in school and had not, frankly, done as well in her career, either. But here in the real world, where it mattered, I was in the Appear Rich group and she was on the fast track to Gonnabe Rich.

"Nope," Lisa said. "He's retired. But the good news is that his nephew took over his business, and to be honest, he's even better than his uncle. He apprenticed with Brian. Then he took all of the original secrets of the rich, added his own, and improved on some of the core tactics that the wealthy use to accelerate their investment returns.

"He's even more focused on all aspects of debt and restructuring cash flow to increase investments. We're not big risktakers, so we're happy with his approach. It's really balanced. We've reduced our debts down to a modest mortgage, and learned to invest in a common-sense way where even conservative investors can outperform the markets."

I had heard enough. "How can I reach him?"

"You sure you want advice from your little sister?" she teased. "His name is Bruce Talbot. I'll email you his contact information."

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"Talbot?" I echoed. "There's a Keith Talbot on Chris's hockey team. I wonder if Bruce is his dad. I don't know that many Talbots."

"It could be. I know he used to coach his son's hockey team, but he stopped last year."

"Well, I'll give him a call, and if it's the same guy, possibly see him at Chris's hockey game on Thursday night. Oh, and Lisa …"

"Yes?"

"Thanks for everything," I said, humbly.

"Anything for my favourite brother!"

"But I'm your only brother."

"That explains it!" she kidded. "I'll see you soon."

I debriefed Michelle about our conversation and acknowledged that I felt more than a little in the dark about finances. Like many, I sensed that that the rich really do know things about minimizing taxes and building wealth that the rest of us don't. While we didn't need to be wealthy and likely wouldn't enjoy Freedom 55, it certainly would feel good to not worry that we'd have to work until we're 75.

I thought back to my portion of the inheritance from our aunt. I used it for a nice vacation and as part of a down payment for my first new truck. I wondered what a 'Debt Swap' was, and what other ideas my "rich" sister was benefiting from.

I was determined to find out.

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Swapping Bad Debt for Good

"The government's Swap-Your-Clunker program"

A quick call confirmed that Lisa's financial advisor was indeed one of the parents on Chris's hockey team. When Michelle and I arrived at the arena for the next game, I introduced myself.

"Hi, you must be Bruce," I said, as I approached one of the few fathers on the team I didn't already know.

"Yes, I'm Keith's dad."

"This is my wife, Michelle."

"Nice to meet you both."

Michelle struck up a conversation. "I understand you used to coach hockey?"

"Yes, I coached for a long time," Bruce replied. "Hockey in the winter, and soccer in the summer. It was nice to help the kids learn some strategies, teamwork, and a few life skills. But after eight years, I'd had enough and it was time to let others give it a try. So now I get to enjoy the games from up here."

"Joe's sister, Lisa Williams, tells us that you've helped them a lot with their finances," Michelle went on. "She really piqued our interest! She mentioned something about a Debt Swap and other strategies that the rich use that others, like us, could really benefit from."

"Well actually, Lisa was my uncle's client for many years. When he retired a while back, I took over."

"We really don't want to distract you from the game, but man, we could use your help," I jumped in eagerly. "Would you mind chatting a bit? We really didn't learn much about money growing up."

"I don't mind at all," Bruce replied graciously. "I genuinely enjoy helping people learn about how to improve their finances. It's a real crime that we're not taught even the basics in school about being more effective with money – managing debt, saving for retirement, and minimizing taxes.

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"It would benefit all of us, and not just as a society, but as individuals, if we were more knowledgeable and independent. Think about it: money problems don't just strain our banks accounts. They strain our relationships. They're still cited as one of the top reasons for divorce. I've even seen money problems affect people's health. So when I help people learn how to increase their financial security, I find I'm often helping them in other, more important ways, too."

"Look, here comes Kim," Michelle pointed out. As our friend sat down, my wife made the introductions. "Kim, this is Bruce Talbot, Keith's dad. He's also Lisa's financial advisor. Bruce, meet Kim Ho."

"You must be Ben's Mom," Bruce said with a smile. "We're glad you made it. The team doesn't do as well without your son."

"So he likes to point out," Kim grinned.

"Kim is a long-time friend of ours," Michelle elaborated. "The three of us met way back in university, when Kim was in med school."

"Joe, did you see the Leafs lose again last night? That's gotta hurt," Kim ribbed me. "Then again, you've gotta be used to it."

For a divorced doctor and mother of two, she spent a lot of time at the rinks with her two boys, and knew a lot about hockey. Unlike many southern Ontarians, she didn't suffer the misfortune of being a Leafs' fan and took great delight in mocking their struggles.

I decided to ignore her teasing. "Kim, we were discussing how many of us are financial illiterates, and how it could make a big difference to know some of the ideas the rich take advantage of."

"I wish I knew more about managing money, too," Kim sympathized. "I remember how disappointed I was after I had invested so much money and time to become a family doctor, only to discover that I lost such a huge portion of my pay to taxes. Then," she chuckled, "I had no clue how to manage the little the government didn't take. But I'm so busy with my practice and the kids, how am I supposed to find the time to figure out how to build wealth like Donald Trump?"

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"So you haven't heard of a Debt Swap, either?" I asked. "You don't know how to convert bad debt to good debt?"

"No clue," the smart, single mom admitted good-naturedly. "But I'd love to find out."

"Bruce, can you fill us in on what good debt is?" I pressed impatiently. "Lisa mentioned it the other night. I didn't know there was such a thing as good debt."

"Sure. Let me start by asking a question. With all of the awareness about how dangerous cholesterol is to our health – how it leads to clogged arteries and increased risk of heart attack – is it possible that there is such a thing as *good* cholesterol?"

Confounded, I looked to Kim.

"Well, yes, there is," the doctor confirmed. "There is actually good cholesterol – a type that helps remove bad cholesterol and reduces the risk of heart disease."

"I didn't know that," I admitted.

"It's true," agreed Michelle, a part-time nurse at a retirement home.

"Just like everyone knows about bad cholesterol but not good cholesterol, everyone thinks that all debt is bad. But that, too, is a myth," Bruce went on.

"There are fundamentally two types of debt. Unfortunately, the most common type is **bad debt**, which **is personal borrowing to buy something that drops in value**, often at expensive interest rates. Bad debt is **guaranteed to make you poorer**. **Good debt**, which could also be called investment debt, **is when you borrow to invest** in something that **should** increase in value to **make you *richer***.

"One of the advantages of **good debt** is that borrowing to invest in something that can produce taxable income **is generally tax deductible**. To build wealth, the rich focus on two things when investing: how can their money grow quickly, and what are the after-tax results. That's why when the wealthy borrow, it's generally at a low, tax-deductible interest rate to invest in a business, the stock market, or real estate."

"Is that what Donald Trump does?" Kim wondered.

"Yes. Trump became a billionaire by buying properties, mostly with borrowed money. The rental income produced

some profit. But the bigger part of his wealth came from investing a little of his own money, borrowing the rest, and watching the value of his properties increase."

"But didn't he go bankrupt several times?" asked Michelle, my conservative better half.

"Yes and no," Bruce responded. "Several of his businesses have filed for bankruptcy, that's true, but he himself has never filed for personal bankruptcy. By not using personal assets to secure his business loans, when one of his many businesses fails, his personal assets remain safe.

"But Trump's experience illustrates how some good debt strategies are powerful enough to become wealthy very quickly. In his case, he became a billionaire very quickly and, yes, he lost a ton of money almost as quickly.

"The potential for losing lots of money is why it's critical to fully understand the guidelines my uncle and I created to make good debt safer before you consider any of the strategies we might discuss later."

Bruce paused for a few seconds. "Unless you do a Debt Swap."

"Ah, the infamous Debt Swap!" My ears pricked up. What *is* a Debt Swap?"

"You know how the government wants to stimulate a greener, more environmentally-friendly society?"

"Yeah."

"Well, if the government had a program where you could exchange your old, inefficient vehicle for a newer, fuel-friendly vehicle, for *free*, would you be interested?"

"Of course," I salivated. "My truck's near the end of its lease, and …"

"Unfortunately, a 'Swap-Your-Clunker' program doesn't exist for physical vehicles – those you drive around in," Bruce interrupted with a grin. "But it is possible for the debt that's used to drive our financial lives. Under the right conditions, you can 'swap your clunker debt' and replace old, inefficient, bad debt with new, lower-cost, good debt."

"So how can we swap bad debt for good?" asked Michelle, seeking any way to improve our financial situation.

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"The opportunity for a Debt Swap exists whenever you have personal debt and some investments outside of RRSPs," Bruce explained. "In that situation, the basic Debt Swap involves three simple steps, and is guaranteed to benefit you, regardless of your age, income, or risk tolerance. It's one of the few 'can't-lose' good-debt strategies.

"**To implement a Debt Swap, you simply cash in your investments, pay down your personal debts, and borrow to replace the investments you cashed in**. Essentially, you're simply restructuring your debt to take advantage of the fact that when you borrow to invest, the interest is tax deductible."

"Why are you guaranteed to benefit?" asked Kim, who like my wife, errs on the cautious side of financial affairs.

"Because your total debts and investments don't change, but your borrowing costs are reduced in two ways. If you simply created a tax deduction for some of your interest expenses, that would be a welcome savings for any Canadian who thinks they already share enough with the government. But the benefits of a Debt Swap go beyond that.

"When you borrow to invest, the interest rate itself is typically very low, near the prime rate – the lowest rate generally charged to the lender's best customers. So even before the tax deduction, you're going to pay less interest than you do on credit cards, conventional vehicle loans, and maybe even your mortgage."

"So," Kim summarized, "if you've got some investments you can cash in, you **can convert expensive, non-deductible personal debt into low-cost, tax-deductible investment debt**?"

"Bingo," Bruce said, with smile and a thumbs-up. "When a Debt Swap is used to reduce non-mortgage debts like credit cards, personal loans, or vehicle loans, it's not uncommon to save over a thousand dollars a year with the lower interest rate and the tax deduction on the investment loan.

"In today's finance-everything world, **how you think about and use debt is foundational to your financial success**. When it comes to debt and investing, many

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Canadians have it backwards. The Appear Rich borrow first, at expensive, non-deductible interest rates to buy things that depreciate. Then, they have little or nothing left over to invest to build wealth and security. The Gonnabe Rich make their priority buying things that increase in value. They either pay cash or borrow at lower, tax-deductible interest rates, and then fund their lifestyle with what is left over.

"If you're going to borrow, wouldn't you rather borrow at a lower, tax-deductible rate to buy something that increases your wealth?"

"Like the rich do," I chimed in. "But …"

I was cut off by cheering erupting from the other parents on our team. It seemed our team had scored.

"Did anyone see who got that?" Kim needed to know. "Ben doesn't like it when I don't see him score."

"It was Ben," Bruce informed us, "with a nice deflection into the top of the net." Somehow, he was able to watch the ice while sharing his ideas on being more effective with debt and investments. A true multi-tasker.

My singular mind was focused on the finance game. "But what if you don't have non-RRSP investments to do a Debt Swap with?"

"As with any strategy, not everyone can benefit from a Debt Swap. But it's surprising how many people can. I often find when clients refer wealthy individuals – who of course have lots of investments – they also have vehicle debts or mortgages that could be made tax deductible.

"And if you don't already have unregistered investments to swap now, you can take advantage of the opportunity when you unexpectedly come across 'new money' from a bonus at work, or maybe an inheritance."

"Like Lisa did with her inheritance from our aunt," I recalled.

"Exactly," Bruce confirmed. "That's how my uncle did a basic Debt Swap with your sister – at first."

"She doesn't do it that way anymore?"

"The basic three-step Debt Swap is a simple, 'can't-lose' concept, but adding a fourth step makes a big difference. As I started working with my uncle, we learned more and

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more about the importance of behavioural solutions in helping clients benefit financially.

"Let's assume for a second that one of your top financial priorities is to retire comfortably. That's the case with most Canadians, right? But for whatever reason, after paying bills and whatnot, there's very little cash flow left over to add to your retirement funds. If we found a way to free up some cash flow, what would you do with that freed-up cash flow?"

"A lot of things," Michelle replied wistfully, visions of a bathroom upgrade, new flooring, or maybe even paying down debts dancing in her head.

"If funding a comfortable retirement is truly a top priority for Canadians, the way they say it is, what should someone *want* the freed-up cash flow to be used for?"

"Increasing retirement savings," she acknowledged.

"Investing the savings towards retirement or say education funds is such a big part of the long-term benefit, **the strategy could** perhaps **be** called '**Debt Swap and Invest the Savings**.' But because investing the 'new money' freed up is the only way I do it with my clients, I refer to the strategy as simply a 'Debt Swap.'"

"So by also investing the savings, what difference could a $30,000 Debt Swap make, over say, a fifteen year period? Like Lisa, I also inherited $30,000 when our aunt passed away," I informed.

"Well that depends, of course, on how expensive your bad debts were, and the returns on the invested savings. I can't talk about how Lisa has done, that's confidential. But say someone had $7,000 of credit card debt, $15,000 in vehicle loans, and a mortgage, the interest savings and tax deductions might be a little over $1,900 a year. That money invested and growing at six percent would be worth over $40,000 fifteen years later."

I wished I hadn't asked.

"The **other benefit** from doing a Debt Swap with new money like an inheritance is that the **money ends up in investments that increase your wealth and benefit you for decades**." Sensing my regret, Bruce jokingly patted me on the shoulder. "Often, new money is treated like a gift and

spent immediately on stuff that's worth very little or gone completely in a few years. This lets you appear rich, but only temporarily. It hasn't increased your short-term security or long-term wealth.

"Joe, if because of the Debt Swap, your $30,000 inheritance ended up invested instead of spent, it would more than doubled to $70,000, based on the same six percent returns."

"Sure, kick a man while he's down," I moaned. "Seventy thousand dollars instead of having a truck that's been long gone, and a vacation I can barely remember."

"But your memory is going because you're *old*, darling," Michelle felt compelled to sweetly add. "*I* still remember the trip vividly."

I could barely wrap my head around the math, but I feared I had managed to nail it. "So, including the $40,000 from investing the savings, one concept applied to a $30,000 inheritance can make a difference of over $110,000 fifteen years later?" I felt a migraine coming on.

"You still received value from the truck and vacation," Bruce tried to comfort me. "But 'investments' like trips and trucks don't help you move towards the Gonnabe Rich group."

"What if you don't have unregistered investments and everything you have is tax-sheltered in RRSPs and TFSAs?" Kim piped up. "Could money in Tax Free Savings Accounts be used for a Debt Swap?"

"Good question," Bruce complimented her. "First, let's clarify that interest is generally only deductible when you borrow for investments that are not tax sheltered. That means you can't do a Debt Swap cashing in and replacing investments in a TFSA, where your money grows tax-free while it is in the plan and when you withdraw it.

"If someone had TFSAs and personal debts beyond their mortgage – like credit cards changing almost 20 percent interest, or even auto loans charging six to eight percent – they would come out ahead cashing in their TFSAs to pay down their expensive debts, and borrowing at a lower rate to invest the same amount *outside* of TFSAs. You'd lose the tax-free growth, but you'd save much more than that with the lower rate on the

investment loan, and by making the interest tax deductible."

"But what if you had TFSAs and only mortgage debt?" Kim asked, her question clearly pertaining to her personal situation.

"That's a tougher question. And a few of my higher-income clients have asked the same thing. A simple rule of thumb is that you still come out ahead cashing in TFSAs to pay down a mortgage and borrowing to invest unregistered, as long as the rate on the investment loan isn't higher than the mortgage rate. Your benefit will be a little more if you had equities in your TFSA, because even without tax-sheltering, equity investments are very tax efficient."

"That's good to know," Kim said appreciatively. "I have some TFSAs I could swap, and I'll probably be joining the inheritance club soon. I'm getting some 'new money' from my grandfather, who passed away last year."

"I'm sorry for your loss," Bruce told her. "But speaking of tax-sheltered investing, RRSP season's just around the corner. Did you folks know there's another 'can't-lose' good-debt strategy that can ramp up your RRSP contributions by 25 to 85 percent?"

The three of us leaned in just in time to hear the game buzzer go off.

"Next week," Bruce promised as he stood. "And congratulate Ben on his two goals," he winked at Ben's startled mother.

Gross Up RRSP Contributions 25 to 85 Percent

"Don't put dry pasta in your RRSP."

I couldn't wait to get to the game the next week, and I had to admit it wasn't all about watching my son play. I didn't want to take advantage of Bruce's goodwill and knowledge, but … okay, I did want to take advantage of Bruce's goodwill and knowledge.

After we were settled in our spots and pleasantries had been exchanged, I launched in.

"Last week, you talked about ramping up our RRSP contributions," I reminded him. "I might not know much about money, but I know that there's no investment that earns 25 percent returns, let alone 85 percent."

"Wow, that didn't take long," Bruce chuckled. "First of all, there *are* investment strategies that can temporarily produce annual returns higher than 85 percent – that too often are only used by the wealthy. But as we saw with Trump, the 'higher-return, higher-risk' strategies can lose a lot of money just as fast as they can make it.

"Secondly, there is a simple way that millions of Canadians *can* get returns of 25 percent or more, and yes – guaranteed. But that's not what I'm talking about."

Kim leaned in, intrigued. "What do you mean, then?"

"I'm saying that when you're saving for retirement, **don't put dry pasta in your RRSP.**" Bruce watched as an 'Are-you-nuts?' expression formed on my face.

Mercifully, Michelle stepped in. "What does pasta have to do with RRSPs?"

"She's the cook in the family," I joked.

"Dry pasta illustrates a fundamental understanding that's important when investing in general, and especially when saving using RRSPs," our hockey-dad advisor explained. "Have you ever noticed that when you cook pasta, it expands to be much larger than it was when it was dry?"

"Of course," Michelle nodded. "As it soaks up water, it can become twice as big after it's cooked."

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"And if you let it dry out, what happens?"

"It returns to its original size," Michelle dutifully replied.

"Dollars you earn are a lot like pasta. You get paid with larger, wet, cooked pasta – dollars that haven't been taxed yet. But after the government's taxes suck the water out, all you're left with is smaller, dry pasta – after-tax dollars.

"One of the secrets of the rich is that they **always think about the impact of taxes**, **and the difference between before-tax dollars and after-tax dollars**."

"What does that have to do with RRSPs?" I inquired.

"If you don't put the equivalent before-tax amount in your RRSP, you end up investing less than you start with, less than you need to, and probably less than you think," Bruce contended.

"Let's say that Joe here is in a 40 percent tax bracket, and has $3,000 to add to his Registered Retirement Savings Plan. If Joe puts the three grand in his RRSP – and like most, spends the refund – how much did he put towards his retirement?" Bruce tested.

"Three thousand," we three replied in unison.

"But here's the critical point that's easy to overlook. Did he invest three thousand *before-tax* dollars or *after-tax* dollars?"

After a pause, I replied, "Before tax. RRSPs are all before-tax dollars that will be taxed later, when I withdraw them."

"But you started out with three thousand that was already taxed – pasta that was dry. To add the amount that you started with and intended to go to your retirement, **you need to 'gross up' the after-tax amount available to invest, to the equivalent before-tax amount in your RRSP**.

"If you had had $5,000 in your RRSP and withdrew it, Joe, how much would you have left?"

"I'd lose 40 percent to taxes, so I'd have $3,000 after tax."

"So for Joe, $3,000 to invest equates to $5,000 in an RRSP," Kim summarized. "How does he turn three thousand into a five thousand dollar RRSP contribution?"

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"That's where the 'Gross Up' strategy comes in. It's the second 'can't-lose' good-debt concept," Bruce answered. "Joe temporarily borrows the difference between the after-tax amount available to invest and the equivalent before-tax RRSP amount. So he needs to borrow $2,000 to gross up his $3,000 to invest to the equivalent $5,000 RRSP contribution.

"A few weeks after filing his tax return, Joe will get a refund for 40 percent of his $5,000 RRSP contribution. The $2,000 refund is enough to completely, and almost immediately, pay off his temporary 'Gross Up' loan. The few dollars paid in interest allow Joe to get $5,000 in his RRSP – the full equivalent amount – instead of $3,000. That's 67 percent more fuel in his retirement vehicle.

"**So $1 to invest equates to much more in an RRSP – 25 to 85 percent more – depending on your tax bracket**."

I swear I saw a light go on over Kim's head.

"How far your retirement vehicle takes you through retirement depends on how efficient the vehicle is, and how much fuel you put in it," Bruce continued. "If Joe put $3,000 in his RRSP, he'd generate a tax refund of 40% of the $3,000 contribution, or $1,200. If he spent the $1,200 refund as most do, how much fuel has he put in his retirement vehicle … after tax?"

"Only $1,800. But …" Michelle hesitated. "But the contribution receipt and the investment transaction both indicate a $3,000 contribution."

"It's easy to be misled into thinking that if you start with $3,000 and put it into an RRSP, you've invested all of the money you started with and intended for retirement," Bruce acknowledged. "But without grossing up properly, you end up converting after-tax dollars to less valuable before-tax dollars.

"And that, my friends, means less fuel in your retirement vehicle than you started with.

"The good news is that more people are now recognizing the importance of reinvesting their RRSP refunds. But I want to emphasize that while this is much better than spending them, it still does not invest the initial, after-tax amount that you started with. To get the full benefit of RRSPs and build the retirement funds that are needed,

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you obviously should never put dry pasta in your RRSP. But **you also shouldn't put partially cooked pasta in your RRSP either**. It's not as filling.

"Reinvesting all of the $1,200 refund would produce a $4,200 total contribution. Much better, yes. But in this case, $3,000 of dry pasta equates to $5,000 of cooked pasta. **Only put fully-cooked pasta in your RRSPs**!"

"Sounds like I should leave all pasta preparation to someone who knows what they're doing," I looked appreciatively at Michelle. "In fact, **if you don't invest the equivalent before-tax amount in RRSPs, you could be better off not using RRSPs at all to save for retirement**. It's not hard to see how $1,800 of fuel in an efficient vehicle might not go as far as $3,000 in a less efficient vehicle."

"Wow," Kim let out a low whistle. "I keep reading about how far behind most Canadians are in their retirement savings. We're living longer and longer, and you never know what the economy will be in the future. Really, every investor should be doing this."

"So don't put dry pasta in your RRSP," I said, pleased with myself and the metaphor. "It's too bad we can't gross up after-tax dollars by simply boiling them in water like cooking pasta!"

"For those who contribute monthly, another way to get the equivalent before-tax amount in your RRSP is to Gross Up your monthly savings appropriately, and reduce your withholding taxes with your employer to account for the RRSP contribution. I figure this out and do the paperwork for my clients. That way, they don't need a temporary Gross Up loan."

"That sounds even better," Michelle enthused.

Naturally, I had another question. "So now that we know how to gross up our RRSP contributions by 25 to 85 percent, how do we get the money to grow at 25 percent a year – guaranteed? It's tough to get ahead with interest rates so low."

"It doesn't have to be," Bruce promised. "Coffee, anyone?"

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Earn Guaranteed Returns of 25 Percent or More

"Avoid library late fees."

"You mean you don't like how the quarter percent interest rate on savings accounts doubles your money every 278 years?" Bruce quizzed, with a sly grin, when he returned.

"Is that really true?" Michelle gasped.

"Only if the account is tax sheltered," he clarified. "Otherwise, it could take over 400 years for your money to double."

The three of us were dumbstruck. Over 400 years?

"Wow," I pressed, "then we really need to know how we can earn over 25 percent interest guaranteed!"

"You know how you can borrow books, music and even movies now from libraries, for free?" Bruce started.

"I do, but Joe's going to have to take our word for it," my wife smirked.

"I've been in a library before!" I protested.

"Yeah, but it was ten years ago, to get a travel guide that was mostly pictures!" explained Michelle. Her love and support were sometimes expressed in ways that were easily misinterpreted.

"Well, Joe," Bruce resumed, "libraries let you borrow all sorts of things, typically for 21 days, for free. But if you don't return what you borrowed by the due date, what happens?"

"You get charged a late fee," I replied, to redeem myself.

"Exactly. The key to earning returns of 25 percent or more guaranteed," Bruce continued, "is to **avoid library late fees.** Now, some people don't mind paying the late fees, thinking that they're getting value for the privilege of borrowing, until they realize how much they're paying.

"Credit card companies are like libraries," he elaborated. "They let you buy today and borrow from them, generally for a grace period of 21 days, for free. But

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if you don't return everything you borrowed by the due date, the late fees start to kick in.

"Typical bank credit cards charge almost 20 percent interest on the entire balance, even if you pay most of the bill on time. If you're late with a payment or go over your limit, other fees are charged, making the interest rate even higher. Surveys show that a staggering number of people have no idea what the total cost is they're paying for the 'privilege' of using their credit cards."

We sat in silence as the other team scored and tied the game. I realized that I was one of those people who didn't know exactly what our credit card interest rate was, let alone what additional fees we might be paying.

"I've got a question," Michelle said a couple of minutes later. "I see how paying 20 percent interest is expensive, but how does that relate to an investment with guaranteed returns of 25 percent or more?"

Bruce smiled. "I thought you'd never ask. Another thing they do when it comes to money is **the rich always think about the net impact on their net worth** – their real wealth. Your net worth, of course, is simply what you own minus what you owe. All of your assets – investments, property, anything that could be sold – minus all of your debts.

"Is there a difference to your net worth between gaining $200 and avoiding the loss of $200?"

"I guess not," Michelle replied sheepishly.

"Both have a positive impact on your net worth of $200. So if you can find a sure way to avoid a $200 speeding ticket, or late fee, not only do you benefit financially, your benefit is guaranteed. In the same way, if you pay down a debt, you're guaranteed to avoid paying interest on the amount you reduced the debt by. You gain financially, exactly the same way you might with an investment, but in this case, with no risk.

"To fully understand how good an investment it is to pay down a debt, we need to remember the difference between dry pasta and cooked pasta. Focusing on the net, after-tax results doesn't just apply to how we use RRSPs. Whenever we're investing, it's critical to focus on the after-tax return – the net amount you benefit after taxes.

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"Here's a simple example," Bruce continued. "Let's say that Michelle here is in a 33 percent tax bracket. She loses a third of her income to federal and provincial income taxes. If she had a GIC that was not tax sheltered in an RRSP or a TFSA, and it earned three percent interest, how much would she gain?"

"I'd gain three percent," Michelle obliged, clearly unimpressed with the simple question.

"How we all wish that were true," Bruce surprised us. "In a taxable account, you'd lose one third or one percent to taxes. Remember, outside of an RRSP or TFSA, when you buy a three percent GIC, you've really purchased two GICs – a two percent GIC for you, and a one percent GIC for the government.

"So your net, or after-tax return, is only two percent. In other words, for someone in a 33 percent tax bracket, a three percent before-tax return equates to a two percent after-tax return."

"How does that relate to debt?" Michelle persisted.

"Well, as I said, paying down debt is a guaranteed return, because you're guaranteed to reduce your interest cost. But is paying down a personal debt, like a credit card or a mortgage, a before-tax return or an after-tax return? Is it the larger, cooked pasta or smaller, dry pasta?"

"We only get to spend or save after-tax dollars," Kim jumped in, confidently. "We don't have to pay any extra taxes when we pay down debts, so it's an after-tax return."

"That's right. **Paying down any personal debt is a simple, easy way to produce a guaranteed, after-tax return of the interest rate charged**.

"So for Michelle, where a two percent after-tax interest rate equates to a three percent before-tax GIC, paying down a credit card that charges 20 percent interest equates to a getting a before-tax GIC of …?"

"Thirty percent," Kim answered without hesitation.

"If Michelle could get a 30 percent GIC, would she be any further ahead than paying down a 20 percent credit card?" Bruce looked at me to test for clarification.

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"No," I responded. I had absorbed the importance of knowing what our total debt costs were and focusing on net, after-tax returns.

"And credit cards aren't even the most expensive way to borrow," Bruce declared. "Selling credit is so profitable that some retailers have their own library services with even bigger late fees. Who knows what rate some of the department stores charge?"

"Um, 25 percent," I ventured.

"I'll say 30 percent," Kim hazarded.

"That's correct. Many retailers charge 29.9 percent interest. Scary, isn't it."

"So someone with debt on a department store card could be turning down a guaranteed return of 30 percent?" I asked.

"Yes," Bruce confirmed. "And remember: that's *after-tax*! In a 33 percent tax bracket, that would equate to getting a before-tax GIC paying 45 percent interest. We all know that's not happening. If banks put up signs offering 45 percent GICs, you wouldn't be able to walk down the street for the people lined up to get inside."

Kim, whose high income and disciplined approach to finances meant such matters didn't apply to her, interjected. "In the old days, if you charged those kinds of rates, they'd call you a loan shark," she said derisively. "Today, I guess they just call profitable retailing."

"It's ironic, isn't it?" Bruce mused. "There are all these investors frustrated with low, single-digit returns on guaranteed investments, but **millions of Canadians are turning down guaranteed returns of 20 to 30 percent, *after-tax***. About fifty percent of Canadians don't pay off their card balances in full every month. This means they're unknowingly turning down before-tax GICs paying 30 to 45 percent interest."

I let out a low whistle. "Good thing we only have regular credit card debts, right, honey?" Michelle's blush and averted gaze told me we might need to have a talk in the car on the way home.

"If someone only made the minimum payment on a card charging 20 percent interest, it would take over 26 years

to pay it off. And that assumes no new purchases are added to the balance," Bruce warned us.

"That's longer than most mortgages!" Michelle exclaimed.

"But at least it's better than 278 years," I reckoned.

"And as crazy as rates on credit cards can be," Bruce continued, "the interest costs aren't always the worst way they damage your finances. Because using plastic is so painless, a lot of people can't resist buying things they normally wouldn't. Things that used to be 'nice-to-have' get upgraded to 'wants' and then 'needs,' and before you know it, they're 'must-have-now.' This is a trap even for people who are disciplined enough to pay off their balances every month. They're still paying off things they didn't need in the first place."

"I've certainly done that," Kim sighed. "There wasn't anything wrong with my old coffee-maker. Now I've got a massive, stainless-steel cappuccino maker."

"Yeah, and you've never once made me a coffee with it," Michelle noted.

"I can't figure out how to use it!" Kim admitted. "But it was on sale, I had my charge card, so ka-ching."

"If it was on sale, even if it was 90 percent off, and you can't use it, did you really save any money?" Bruce prompted her.

"You sound just like my ex-husband!" she laughed.

"Well, how we use credit cards is usually a good indication of where the rest of our financial lives are headed," Bruce explained. "Sure, there are people who use them wisely for reward or loyalty program points. But if you're paying high interest rates to buy more stuff than you need, you likely have too much debt, little cash flow left over for retirement savings, and you probably earn investment returns that are a fraction of what they could be.

"In other words, how you use credit cards is the canary in the coalmine as to whether you're a Gonnabe Rich or an Appear Rich. Did you know that the average amount spent annually on credit card interest alone is almost $700 – enough to pay for 240 loaves of bread?"

"That's a lot of dough!" Michelle quipped.

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"Or, for those of us who prefer our yeast in the liquid form, that's over 20 cases of beer!" I added, converting to a different currency.

Bruce smiled with a nod, "Or consider someone in the middle tax bracket who thinks they can't afford to save for retirement. By simply avoiding the most expensive bad debt and investing the equivalent amount spent annually on credit card interest, they could add an extra $38,000 to their RRSPs after 20 years of six percent returns. And that doesn't include interest paid on all the other forms of debt."

"So it pays to avoid library late fees," I affirmed, now vividly aware of how much.

"Sorry for being long winded," Bruce apologized, as the hockey game ended in a tie. "Helping people learn how to be more effective with debt is something I'm very passionate about."

"Bruce," Kim asked as she got up to get Ben and head home, "do you have a business card?"

"Sure."

Glancing at it briefly, Kim read 'Bruce Talbot, The Smart Debt Coach.' She wondered what Smart Debt was, but knew she would have time for more questions at the next game.

Strangely, she couldn't wait.

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Debt is a Vehicle

"You can go faster, forwards or backwards."

"Honey, does it look like I've gained weight?"

No, that wasn't my wife speaking. It was me. I was secretly hoping she would admit to having accidentally shrunk some of my clothes.

"I love you as much as ever, even if there's a little more of you to love," Michelle grinned. "Now are you going to ask me if those jeans make you look fat?"

"Seriously, in the last few weeks, I've been seeing some 'new' numbers on the scale, and I don't like it. This aging thing isn't much fun."

"But it does beat the alternative!" the practical one pointed out.

"Yeah, but I miss the days when I could eat and drink as much as I wanted and not gain weight. Look at Chris. He eats us out of house and home, and he's stick thin."

"But you're not a teenage boy, Joe, even though you sometimes act like one," she chided. "If you're worried, get out and get some exercise! But right now," she added, glancing at her watch, "it's time to get Chris to his. He has to be on the ice in half an hour."

When we arrived at the arena, Bruce and Kim were already chatting in the stands. I wedged what felt like my ever-expanding girth into a seat beside them.

"Hey guys," Kim greeted us. "Bruce was explaining about Smart Debt, and why his business card says 'The Smart Debt Coach.' He was just saying that in many ways, debt is like a vehicle."

"What do you mean?" I asked. "Because it can drive you crazy?"

"No," Bruce laughed. " I was just saying that in the most general sense, **debt is a powerful vehicle that moves you faster than you could on your own, going forwards or backwards**," explained Bruce. "Bad debt, where you borrow for something that's guaranteed to decrease your

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net worth, always moves you backwards, away from your financial goals. You're going in reverse.

"Good debt, like a vehicle driven forward, *can* accelerate your journey toward wealth and security. But while we all know that a vehicle allows us to travel much faster than we could on foot, what else can happen?"

"We can get hurt," Kim, ever the doctor, responded.

"That's right. As you well know, when you're moving faster, you generally get hurt much more seriously you would than if you were, say, walking. **Like any tool, good debt can either help you or hurt you, depending on how it is used.**

"There are different names for good debt, like 'investment debt,' 'borrowing to invest,' 'leveraging,' and using 'Other People's Money,' or O.P.M. I prefer the label 'investment debt' because it reflects borrowing the way the rich do: to buy more of things that should increase in value over the long term, to increase your wealth."

Kim jumped in. "Before you arrived, I was telling Bruce how a doctor I know borrowed to invest, and ended up increasing his losses when the market crashed."

"And sadly, he'd be far from alone," Bruce agreed. "For too many people, borrowing to invest results in magnifying investment losses instead of gains. That's why I think that 'investment debt' is a more appropriate label than 'good debt.' 'Good debt' implies the outcome is always positive, which is clearly not the case.

"It's also true that if you know someone who has become wealthy without inheriting money, they've probably done it using Other People's Money to invest in their own business, other businesses through the stock market, or real estate."

"Where are these other people? I want to meet them," Michelle joked.

Bruce laughed. "They're not individuals, necessarily; when you get a mortgage from the bank, you're using Other People's Money. That's been a really effective wealth-building strategy for most Canadians. Few of us can pay cash for our homes, so most of us borrow a lot of money to invest in real estate. And historically, that's produced above-inflation returns over the long run."

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"But we're Canadians; we *need* a place to live," Michelle countered. "It's a total necessity. But borrowing to invest seems like something that only the rich get involved with and too risky for average-income Canadians."

"Michelle," Bruce asked politely, "do you drive?"

"Of course."

"Why?"

"To get where I need to go," she shrugged.

"You're an intelligent person. Why would you choose to use something that can not only cause serious injury, but could kill you?"

Michelle pondered before replying. "Because I don't expect to get in an accident. I expect to get to my destination safely and on time."

"So you're saying that even though using a vehicle can be extremely risky, you're confident that if you drive carefully, you'll get the benefits – getting to your destination safely and quickly – with little likelihood of injury or death?"

"Absolutely," she replied. "Otherwise, it would be foolish for any of us to drive."

"If we can learn how to drive cars confidently and safely to get to our destinations faster, couldn't it be possible to learn how to use investment debt confidently and safely to get to our financial goals faster, like the rich do?"

"I don't know," my wary wife admitted. "I mean, I guess so. We've never used good debt before – we've never thought of debt as being good before. At this point, we really want to reduce our debt, not increase it."

"Fair enough," Bruce acknowledged. "But you and Joe are probably already using some good debt strategies without even realizing it. Borrowing for your house was good debt, right? And if you borrowed to get a vehicle that allowed you to earn more money than you could without a vehicle, that would also be good debt, right?"

"So if that's good debt, what is Smart Debt?" I asked.

"Smart Debt, in general, is any debt strategy that should increase your net worth – your real wealth and key to a stress-free financial life. It would include Smart Bad Debt strategies and Smart Good Debt strategies.

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"On the bad debt side, any approach that reduces the amount of the debt or the interest cost is guaranteed to benefit you financially. When it comes to something that's bad, less is better, and none is best."

I wanted to drill deeper. "What about Smart Good Debt? What do you mean by that?"

"On the investing side, **Smart Debt** simply **refers to good debt implemented with responsible strategies, responsible amounts, and responsible timing**. In other words, good debt done right.

"Most people are like you and Michelle. They're either unaware of or apprehensive about using good debt, and never consider it beyond real estate or a vehicle. And I'll go along with Kim: a lot of people who have used investment debt have ended up losing money instead of gaining.

"Even my uncle, who taught me pretty much everything I know about financial planning and investment debt, had some good debt clients who were stressed during the market crash.

"That's what led to the evolution of Smart Debt," Bruce revealed.

I was intrigued. "So what exactly happened?"

"Well, my uncle was very careful to ensure that investment debt was implemented responsibly. His fundamental approach was to use only a small, comfortable portion of an investor's capacity for good debt. Using only a modest, comfortable amount, diversifying, and holding on for the long term, smoothes out the bumps in the road. Investors should benefit and increase their wealth faster than they could without borrowing.

"That's a good, solid approach. It's based on long-term historical results and it did make a lot of clients a lot of money. But when the market crashed, some clients got so stressed, they wanted out. No, they didn't sell, and yes, the markets did go on to recover, but that period was painful.

"That's when my uncle applied a simple success strategy that his father had taught him. His dad had

always told him to ask himself this question, especially during a crisis or challenge: **'How can this be improved?'**"

Kim was practically on the edge of her seat. "So, how *did* your uncle improve his approach to good debt?""Two ways. First, we recognized that most investors were only using one good debt strategy. Perhaps driven by greed, they used the approach that magnified returns the most. To take it back to cars, they were only using the most powerful vehicle. Even though my uncle made sure they were driving slowly, as soon as the road conditions became dangerous, they got scared and wanted out.

"But just like there are all sorts of vehicle makes and models with different benefits, there are over twenty different investment debt strategies, each with different levels of risk. So whether you think that investment debt is too risky or one of the best ways to build wealth, **your attitude towards investment debt can't apply to all Smart Debt strategies available** to investors. There's a wide range of risk levels, including some 'can't-lose' strategies like a Debt Swap and a Gross Up that benefit anyone, regardless of their risk tolerance.

"So the first aspect of Smart Debt is to determine the type of driver you are, and to only consider vehicles you're personally comfortable with. Of the many Smart Debt concepts that exist, only consider responsible strategies that make sense for *you*. Then, as my uncle always recommended, only use a responsible amount of good debt – drive slowly using a small portion of the vehicle's potential for speed."

"What was the other improvement that led to Smart Debt?" I prompted.

"The key good debt lesson from the market crash was the importance of responsible timing. When you're borrowing to invest a lot more than you could on your own, *when* you buy into the market is a huge factor in your short-term experience. And I don't just mean financially. Emotionally is maybe even more important.

"Even if you had the safest vehicle on the road, and you never drove it over 50 kilometers an hour, would you want to be travelling at that speed at night during a snowstorm when the roads are icy?"

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"That wouldn't be prudent," Michelle obliged.

"The majority of those who got hurt with investment debt were driving the wrong vehicle, too fast, at the wrong time. But what if you properly select the vehicle that suits you, never drive it over 30 kilometers an hour, and only drive during the day with high visibility, on roads are straight and dry? Then, would you be confident that you'd get where you want to go safely and faster than walking?"

"Well, sure, if you put it that way," I murmured.

"So Smart Debt means sticking to the simpler, safer good debt strategies, with small, comfortable amounts, and responsible timing," summarized Bruce. "It's essentially that simple."

"And why does your business card say The Smart Debt 'Coach' instead of 'advisor'?" asked Michelle.

"Oh, that!" Bruce laughed. "The coach label started with me being a coach for my kids' sports teams. But the reason it stuck is that I take more of a coaching than advising approach with my clients.

"As 'The Smart Debt Coach,' I help apply the Smart Debt secrets used by the rich to increase my clients' wealth and security. In a nutshell the **Smart Debt concepts reduce bad debt, increase savings, and improve investment returns**."

"I like that 'coaching' approach," Kim said with a wide smile. "Goooo, team!"

"Speaking of which, maybe we should watch ours play for at least a few minutes," Michelle chuckled.

As we returned our attention to the action on the ice, all I could think about was that there was so much more to learn. We definitely needed coaching, and plenty of it.

As I sat watching the game, I was excited about learning more of the strategies that Lisa has been benefiting from. Then as I came back to the reality that our financial knowledge meant we were starting from almost ground zero, I started to become a bit overwhelmed. Fortunately, my aging memory offered hope. "Bruce, Lisa said something about a shortcut to success. Is there a faster way to take advantage of the Smart Debt concepts and secrets of the rich?"

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How to Benefit from Good Ideas

"How many birds are left?"

"If you really want to find it, there's almost always a faster way," Bruce, the Smart Debt Coach, replied. "If you're just talking about the shortcut to financial success, you're already doing it."

"How?" I asked, oblivious.

"When you found out that your sister was in better financial shape than you are, what did you do?"

"I tried to find out how that could be, given that she has a lower income, so I contacted you."

"Why?" he pushed, patiently.

"Because Lisa said that she learned a lot of valuable financial ideas and secrets of the rich from your uncle, who had retired. She said that you had learned everything he knew about financial planning after years of apprenticing with him. She said you even introduced her to new ways to increase her wealth that your uncle hadn't been using, especially for moderate-risk investors like her."

"So you contacted someone who already knew how to succeed in the area you wanted to succeed in," Bruce summarized.

"That's right."

"There you go. You're already pursuing the fast track. The **shortcut to success in any area,** not just finances, **is to model success**. Learn from those who consistently get the results you want, and do what they do.

"When I got into financial planning, I didn't choose to work with my uncle because he was a relative. I chose to work with him mostly because he was very successful, not just for himself, but with his clients. He taught me a client-first process that consistently moved clients towards financial independence. He, in turn, learned many of the secrets of the rich from dozens of his wealthiest clients. These Already Rich clients had different attitudes and behaviours than others. They took

advantage of different strategies that most people were unaware of, or not willing to act on.

"Whether you get the information one-on-one, in a book, or through some training program, ideas that might have taken experts twenty years of focused effort to acquire can be yours in minutes. And in this information age, a single idea can be worth millions, especially in business or finances.

"Applying an expert's recipe for success is like using a map – or these days, a GPS – to guide you directly to the goal you're after."

"So we're already on the fast track to financial success," I mused, feeling infinitely more positive about our finances – even though we weren't any richer yet.

Kim jumped in. "So what are some of the most important Smart Debt concepts that can help us become richer, faster?"

"Of the many investment debt strategies that my uncle and I have identified so far, we've selected about a dozen of the simpler, safer ones to focus on first. More conservative investors might want to only focus on the guaranteed benefits of reducing bad debt, and a few of the lowest risk Smart Debt strategies for investing. Other investors, who are further along the road to financial freedom, will want to know all of them and identify the three or four that are most effective in accelerating wealth in ways that suit them.

"But before we consider any more specific strategies, it's important to know what it takes to benefit from good ideas. Otherwise, you could waste your time, and not be any better off. Benefiting from good financial ideas takes at least three things in the right order."

Michelle's curiosity was piqued. "What's the first?"

"The first step in benefiting from a good idea is that you need to be aware of it," he replied. "Being unaware of good ideas is one of the biggest consequences of financial education not being taught in school. We don't know what we don't know. Until you're aware of a Debt Swap or how to Gross Up your RRSP contributions, for example, those ideas don't even exist in your world."

"That makes sense," I agreed. "And after we're aware?"

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"You tell me," Bruce challenged. "When Lisa informed you that she was benefiting from a Debt Swap concept, was that enough for you to benefit?"

"No. I had no idea what it was about."

"So the second step is you need to understand," he elaborated. "You need to understand several things: what's the general idea, does it apply to me, and the pros and cons to assess if it makes sense for you. Only if it applies to you, and makes sense for you, do you take the critical third step."

"And what's that?"

"The best way to illustrate the critical step in benefiting from good ideas, and have you remember it, is with a simple question. If three birds are on a telephone wire and one decides to fly away, how many birds are left on the wire?"

"Is this a trick question?" Michelle wondered aloud.

"No. I'm not testing your grade one math skills."

"Then there would be two left," she stated.

"I don't think so," Kim proclaimed, recognizing that there had to be a point to the advisor's question. "Simply *deciding* to fly away doesn't get you anywhere. So there would still be three birds left."

"Excellent insight," Bruce grinned. "One of the success characteristics of the rich is that once they understand a way to benefit, they don't keep sitting there on the wire. They don't keep thinking about it, or add it to their 'to-do-later' list. They ACT on it.

"Until the bird actually starts flapping its wings, how much closer is it to its destination?"

There was no response to the rhetorical question.

"**So the key to financial success is not what you *know*, it's what you *do***, both as a consumer and as an investor," Bruce emphasized. "You can't do what you don't know, and you shouldn't act on something you don't understand.

"If you individually, or even as a couple, earn $50,000 a year after taxes, ignoring inflation, that means a million dollars would pass through your hands over 20 years. So unless you're already an expert, finding ways to be more efficient as a consumer, with debt, and as an investor, can make a huge difference over time. Those who earn more

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obviously have a much bigger opportunity to increase wealth.

"Once you understand the shortcut to success and how to benefit from valuable ideas, achieving financial independence is easy for almost everyone. Unlike sports, where inborn talent can make a huge difference, being financially successful doesn't require talent, higher education, hard work, or even knowing much about money. **Anyone can achieve financial success by becoming aware of, understanding, and acting on effective financial strategies**.

"In fact, I think it's actually worse to know how to benefit, and not act on it, than to not be aware at all."

"Why's that?"

"Because, Joe, once you're aware of an idea that can benefit you, and you choose to not act on it, there's only one person to blame."

"Your spouse!" Kim laughed.

Chuckling, we let our attention shift to the hockey game for a minute. Ben scored a beautiful, short-handed goal with a great individual effort.

"That was an awesome goal," I marveled. "Kim, how on earth did Ben learn to be such a talented hockey player?"

"Oh, that's easy," she beamed. "Ben loves to watch hockey almost as much as he loves to play it. He really started studying the game and learning from the pros. I encouraged this initiative, with one exception," she added with a wink. "I told him to watch any team but the Leafs."

As a die-hard Leaf's fan, I had to admit that there were two things that sometimes made it difficult to remain supportive: Kim's never-ending ribbing, and the Maple Leafs' play on the ice. "Nyuk, nyuk," I sighed, good naturedly.

"That truly was a highlight reel goal," the retired hockey coach seconded, smiling. "It's great to see Ben modeling success by studying the pros. He's clearly acting on what he's learning.

"As for benefiting from good ideas, I have to share that for years, I felt that these three steps were sufficient. Awareness and understanding would overcome the

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financial knowledge gap. And by reminding clients that if you don't shoot, you can't score – that without ACTion, you can't benefit – I was confident that clients would follow through, especially when they absolutely knew they would benefit with no risk.

"But even with my behavioural coaching focus, I was wrong. Sometimes, some of the most proactive people did not ACT on simple ideas that were a slam dunk. They lingered on the 'Should Do' list, instead of the 'Done' list. Sometimes, even I was guilty. Something was missing; something that if you had it, it alone was enough to be successful."

The Gonnabe Rich Mindset

"Wealth begins within."

"What was missing?" I queried.

"Sometimes what is more important than *how* to improve, is *why*," the coach explained. "That is a big part of the Gonnabe Rich mindset: the reality that all wealth begins within – in your mind.

"If you have a big enough WHY – a reason that drives you to succeed – you'll automatically look for better ways to achieve your goals. You'll invest the time to understand, and you won't need anyone to remind you to act on the ideas that can benefit you.

"So for many, **the critical first step in benefiting from good ideas is having a big WHY**. In finances, behaviour trumps logic, and WHY drives behaviour."

Michelle looked pensive. "But what if someone doesn't have a big why?"

"Then they're not likely to change," Bruce replied flatly. "In fact, being 'comfortable' or 'getting by' is often the biggest barrier to making significant changes in your financial life. For a lot of people whose essential needs are being met, there's little reason to stretch, to dream, to learn about or act on ideas that can create true financial freedom. And really, true financial freedom is being able to do what you what, when you want, with who you want, in the style you want.

"If you think about it, it explains why rags-to-riches stories are so common. When someone is truly impacted by financial hardship – maybe childhood poverty or maybe at one point, they enjoyed a good lifestyle then lost everything – that can motivate them so much that they commit to doing whatever it takes to make sure they never experience that hardship again. It drives them to succeed, no matter what.

"When my uncle started teaching me about the behavioural side of financial planning, he shared a story that taught me the power of having a big enough WHY.

He had a client, let's call him Tom, who had smoked cigarettes for twenty years, tried to quit many times, but never found a way to kick the habit.

"Then, one day, Tom's young daughter, who he adored, came home from school and walked directly into his home office. She was very quiet and clearly upset. When she looked at her dad's lit cigarette in the ashtray on his desk, she started to cry. When he pulled her up on his knee and asked what was wrong, she didn't want to tell him at first. But finally she asked, 'Daddy, when are you going to die?'"

Bruce paused thoughtfully, then resumed. "She had learned about smoking in health education that day, and she gave Tom a big enough WHY to quit smoking, for good. He didn't even finish the lit cigarette, and he hasn't had one since. Concern for his own health, and even his wife's pleading had no impact, but his daughter's broken heart and the thought that he might not be there to walk her down the aisle was enough for him to ACT, immediately."

Kim broke the ensuing silence. "That's a powerful story. I might use that to help some of my patients discover a bigger reason to quit."

"Good idea. And unless they're already wealthy, you could point out a couple of bonuses for their financial health, too. The money they'd save on cigarettes combined with lower life insurance premiums can go a long way towards funding retirement or education savings."

"What did you mean when you said that wealth begins in your mind?" Michelle asked.

"I mean that the critical difference between whether you'll become financially independent or stay in the Wannabe Rich group, more than anything else, is your mindset, your attitude. Your behaviour and habits come from your thinking and what you focus on, so **the starting point for all financial success is thinking like the rich**. We've talked about the fact that the shortcut to success is to model others. As you would expect, there are all sorts of books that shed light on how the wealthy think and act differently than the majority.

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"One of the original classics on the topic, aptly titled *Think and Grow Rich*, by Napoleon Hill, is the most dog-eared in my personal learning library. But before I share a few of the key attitudes that lead to wealth, let me suggest a way to make it easier to pursue and act on strategies that benefit you financially."

Please do," I encouraged him. "I appreciate any approach that makes things easier."

"There are a couple of things that make learning about finances challenging for most people. First, because we're not taught the basics about money, let alone secrets of the rich, we don't realize how valuable ideas can be, especially if the benefits can compound for decades. The rich recognize that **one of the best investments you can make** – one where it makes sense to borrow if necessary – **is any knowledge that should increase your future wealth**, either by increasing your income, reducing expenses, or increasing investment returns.

"But the bigger challenge is that most people find numbers and math intimidating, complicated, and, frankly, boring. Even when someone learns about an idea that can add, say, $100,000 to their retirement twenty years later, most don't get jazzed about it. It doesn't excite them enough to immediately ACT and appreciate the relatively easy way to meaningfully increase their net worth over time.

"My uncle taught me that the solution is to **think about financial benefits in terms of your 'personal currency'** – the most valuable way that money can improve your life. Instead of equating an idea to gaining some abstract number of dollars, even if it's a big number, think in terms of what that money can do for you, the currency that is most valuable to you.

"As an example, Joe, what's one of the things you really love to do that costs money?"

I replied without hesitation. "That's easy. I love boating, and almost anything to do with the water."

"Do you like sailing?"

"I love it. The way you can become one with the wind and effortlessly glide along the water. It's almost magical."

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"So if when you're retired, you could own a beautiful forty-foot sailboat, and afford to spend two weeks a year sailing the Caribbean with your family or friends, would that be more exciting than having an extra $100,000 twenty years from now?"

My eyes lit up at the mere notion. "You bet!"

"Well then, whenever you're considering ways to improve your future finances, translate the benefits into your personal currency – whatever gets you excited. Think about that boat. That way, you're more likely to look for, work for, and achieve the wealth to maximize the quality of *your* life."

"What are some of the ways that the rich think differently?" asked my wife, gently steering my thoughts toward more traditional uses for a hundred grand.

"One of the more fundamental attitudes of **the rich** is how they **pursue opportunities that produce long-term wealth, instead of avoiding short-term losses**," answered Bruce. "This mindset impacts our behaviour both as consumers and investors.

"As investors, the majority of people prefer guaranteed fixed income investments that 'can't lose' in the short term, instead of focusing on the types of investments and strategies that are most likely to win in the long term.

"But history shows that if you want **to increase your wealth, you need to be the owner, not the loaner**. Warren Buffet isn't famous because his fortune was made owning bonds and GICs. He is one of the world's wealthiest individuals because he is very good at owning stocks in companies that increase in value over decades.

"Unfortunately, our brains are hard wired to do the opposite of what makes sense as investors. Most of us naturally avoid risk. We have an innate wealth-minimizing approach of choosing to not lose in the short term, instead of winning in the long term. That's especially true during times of uncertainty, when the stock markets are volatile and the opportunities to build wealth are the greatest."

"But it's scary to be in the equity markets when they're falling," Michelle interjected.

"For most, it *is* scary," Bruce empathized. "The fear-sensing part of our brains overrides the thinking part of our brains, even when logic would say it shouldn't. What's actually the safest and most profitable time to invest in the market: when it's up 30 percent or down 30 percent?"

I reflected for a minute. "Everyone's heard 'buy low, sell high.' It's easy to see how buying when the market is down is more profitable, but I never thought about how it could also be safer."

"It is, if you keep your eyes on the prize. Part of the mindset of the wealthy is the acceptance that **the road to long-term success almost always requires going through some temporary losses**. But if you understand that reality – that you can't get up the mountain without going through some valleys – then you can ignore the bumps in the road and take advantage of the opportunity.

"In his book *The Millionaire Mind*, Thomas Stanley points out that the rich think differently than the crowd, and have the courage to take financial risks where the probable outcome increases their wealth."

"So to become richer, we should think long term instead of short term, and focus on offense instead of defense," I summarized, hoping my sports analogy would impress the retired coach.

"Well said!" Bruce applauded.

"Recognize that the rich think of their personal finances more like a business and focus on net gains, in the long run, and seek out opportunities," he moved on. "I was discussing this concept with one of my wealthier clients last week, and he shared a good illustration of why most will stay Wannabe Rich.

"He owns a company and had just returned from a seminar where he paid $1,000 and a full day of his time to learn new strategies about using technology to increase his business. He explained that when he told his brother about it, his brother's response was 'That's a lot of money.' His brother had the mindset that the course was a cost, a negative to be avoided. The entrepreneur, who naturally recognized the value of ideas, said that he is confident that just two of the concepts he learned that day will increase his business by $10,000 to $50,000 in

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the next year or two. That's a ten to fifty times return on his investment."

"And how does the opportunities-versus-not-losing attitude affect us as consumers?" Kim inquired.

"When someone in the Appear Rich group sees all of the retailers' advertising enticing them to get all of the latest and greatest stuff, they do. Their focus is that they shouldn't go without. They don't want to lose out on anything that their friends or neighbours have, even if it means using credit and paying more in the long term.

"But the rich recognize that they have a choice. Each dollar can only be spent or saved, not both. You can choose to say yes to a little more, temporarily, or a lot more, permanently. With a focus on the bigger picture of having real financial independence and the ability to enjoy things that the Appear Rich only dream of, the Gonnabe Rich take the high road. They focus on acquiring appreciating assets – investments that increase their wealth.

"With respect to debt, the rich think about it differently, which is why they use it differently. Their mindset is that debt is a tool that allows them to take advantage of opportunities to increase their wealth so they can enjoy a lot more in the future instead of a little more now."

Seeing the time left in the kids' hockey game, I noted that the game was almost over. "What's another difference in the way the wealthy think that we can start to model?"

After a brief pause, the Smart Debt Coach replied, "There are many ways to become financially independent, but of the success factors that lead to wealth, the other concept worth modeling is that the rich **make financial decisions based on sound strategies and principles**, not fads driven by short-term outcomes. They seek out and act on universal truths – ways to invest that have withstood the test of time.

"Like Warren Buffet, the rich stick to concepts and investments that make sense to them. If something is too complicated to understand and have confidence in, they either invest the time to understand it, or they stay away.

Either way, this approach is not only more successful, it allows them to sleep better at night.

"Finally, they recognize that a bad idea that makes money due to luck doesn't make it a good idea. More commonly, the rich also accept that a good idea that loses money temporarily doesn't make it a bad idea. They stick to sound concepts, make minor adjustments if needed, and have confidence in the long-term results."

As the teams skated off the ice and we got up to leave, Bruce let us know that he'd be missing the next two games. "I'll be out of town doing some training next week," he explained. "See you in a couple of weeks."

Even though Bruce would be away for the next game, I had already decided that it wouldn't be two weeks before I saw him again. It was time to start moving forward.

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Clarifying Priorities

"Be clear on your destination."

After a brief discussion with Michelle, I initiated something I should have fifteen years ago. I called Bruce for a meeting. We were ready for the Smart Debt Coach to help us reduce our debts and increase our wealth. Clearly, we would have been better off if I had listened to my Dad's suggestion to see Bruce's uncle earlier, but as they say, "Better late than never."

It helped that my sister had been working with Bruce for seven years, and his uncle before that. With the discussions we'd had already, we were confident that Bruce could help us get our financial lives back on track.

When Michelle and I entered his office, I immediately noticed the rows of books on the shelf behind his desk.

"That's a lot of books," I commented.

"Yes, and there are even more in my home library," he smiled. "I was lucky that my uncle taught me the shortcut to success early. To get insights and strategies that authors might have taken decades to acquire for about $20 is one of the most effective shortcuts one can take. These days, I do a lot of my learning with audio books, while I'm driving or exercising."

"Joe's 'planning' to exercise more," Michelle disclosed. "He's unhappy about some new numbers he's seeing on the scale. I've been gently reminding him that simply deciding to get out to the gym more won't help him lose any weight. He needs to flap his wings to get off the wire."

"Unfortunately, it gets a little harder as we get older," Bruce consoled me. "But Michelle is right. Whether it's money or energy in our bodies, the same **simple formula** applies: ***Stored = In – Out***. The amount stored equals how much comes in minus how much goes out. If you want to end up with more, you need to increase the amount in and decrease the amount out."

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"Well, you might not be able to help me with what is becoming a physical abundance, but we were hoping you could help us turn our finances into more of a financial abundance," I said.

"There might be a few ways things that can be improved," Bruce said, humbly. "But before we get into the how, let's start by understanding what financial benefits you are hoping for. What I like to do in the first meeting is to get to know each other better, ask a few questions, and explain a little about the relationship process that I've found to be most successful. Please ask whatever questions you'd like, and let me know any time you don't fully understand something. After our meeting, I'll give you an introduction package. After you've reviewed it, you can decide if you'd like to work with me."

"I'm pretty sure we'd like you help us the way you and your uncle have helped Lisa and her husband," asserted Michelle.

"Great. I'll start by asking you some questions. You can give your initial answers now, but the questions are also part of my introduction package, so you can take your time and review them over the next week or two. It's important that you both think about them and talk them over together. You have to discover your true answers about what matters most to you – your individual and combined personal currencies.

"As a start, I need to get a sense of what you're looking for in an advisor relationship. If I were your financial advisor, what two or three things could I do over the next two years that would make you so pleased with our relationship that you would want to tell all your friends about it? What could I do that would be a *wow* for you?"

"Well," I began, "I think our primary concern is too much debt. We're getting by, but it's stressing us a bit because after we take care of the normal bills and other things that keep coming up, there's little or nothing left over to save for retirement."

"Or the kids' education," Michelle added.

"As for what we do have invested, we'd like to do better with our returns," I continued. "When you said that it could take 278 years for money in a savings account to

double, that hit a bit too close to home for us. We're not getting any younger and we have some catching up to do."

"Those are common concerns," Bruce acknowledged. "I'm going to come back to getting better returns a little later. In the meantime, is the stress more related to too much debt or to not enough savings?"

I looked to Michelle.

"Both," she replied without hesitation.

"OK," he nodded. "To help you, I need to be really clear on what your top financial concerns are so we can attempt to resolve some competing priorities. Remember that a dollar can only be spent or saved, not both. Unfortunately for your future lifestyle, in a typical day, you'll come across thousands of messages encouraging you spend and enjoy more now, compared to a handful that suggest that you save so you can also enjoy the future.

"With some of my questions, I'm going to ask you to provide a ranking on a scale of 0 to 10. You said your priorities were to reduce debt, increase savings, and improve returns. **On a scale of 0 to 10, what are your top three financial priorities?**"

"I'd put debt reduction at an 8," I said.

"Make that a 9," Michelle jumped in.

"And increased savings?"

"Probably an 8," I replied, this time getting a nod of confirmation from my wife.

"Which is more important right now? Increasing retirement savings or education funds?"

"I'd say that education is our higher priority for the next few years, because our kids will soon be out of high school. Chris is 13, and Jess is 10," Michelle clarified. "So for now, I'd rank education savings as an 8, and retirement a 7."

"That's good thinking," Bruce said, approvingly. "To get the 20 percent government grants, you need to make the contributions to an RESP – a Registered Education Savings Plan – before a child turns 18. That only gives you five years with Chris. Now, what about improving investment returns?"

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"It's probably the least important right now, so maybe a 6," I offered.

"Right. Now, retirement is usually one of the top three priorities for people who aren't already wealthy. Even if it's not, I need to know how important increasing the quality of your future lifestyle is relative to improving your current lifestyle.

"On a scale of 0 to 10, how important is it to have the financial freedom and peace of mind of being able to retire and enjoy the lifestyle you want for the rest of your life? In other words, **how would you rank the importance of feeling confident that you can enjoy a secure retirement?**"

I deferred to Michelle on this one. She answered, "Considering that retirement might last twenty to thirty years, it should be at least an 8."

"And how important is it to increase your current standard of living?"

"I think we have a pretty comfortable standard of living now," I replied. "So I'd say that improving our current lifestyle is lower, at maybe a 3 or 4. The challenge is that we've gotten into some debt for our standard of living, and neglected our savings in the process. Would you agree, Michelle?"

"We talked about upgrading a few things around the house," she reminded me. "But they're certainly not a big priority, so I would say, hmm, a 4 or 5."

"All right," Bruce nodded. "The last two questions helped me understand what your real financial gap is – what is most important to you. It guides us to know what to do with what I call 'new money.' If we found a way to free up an extra thousand dollars a year, or you somehow came into ten thousand, we need to know in advance whether your priority would be for it to go towards enjoying more now or saving it to enjoy more later."

"I guess we've never really given it much thought," I admitted. "We've sort of just focused on the bills that had to be paid, and if we wanted something, most of the time we got it, usually on credit.

"But the reason we're here is that we know we could do much better financially, and in some ways we need to. So

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the short answer is that new money wouldn't need to be spent to improve our lifestyle. Right now, our priority is to reduce our debts and get our education and retirement savings to a point where we feel confident about the future."

"Fair enough. If you decide you would like me to be your financial coach, everything I do with you will focus on helping you get more of what is most important to you. Once we know what your goals are, we can set our compass, or GPS if you prefer, and design a plan to get go there.

"So, did Lisa talk to you about my Coaching Agreement?"

Michelle and I shook our heads. "What's that?"

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The Coaching Agreement

"A commitment to moving forward"

"My Coaching Agreement is the foundation of my behavioural coaching approach. It lets you know what you can expect from me, and what I'm hoping you can commit to, so we can most effectively work together towards your financial priorities."

"What does it involve?" asked Michelle.

"You'll find a written description in your information package," Bruce explained. "But the Coaching Agreement simply outlines four behaviours that we each commit to; four for me as your financial coach, and four for you as clients. Each element aligns our interests towards one goal: achieving yours."

"Sounds good!" I exclaimed. "So what do we need to do?"

Bruce held up his hand to slow me down. "Let me explain my commitment first, and what you can count on from me. First, I commit to **serve**, not sell. While I'm not unique in this, I learned a long time ago that the best long-term business model is to treat clients the way I want to be treated, where the clients' interests are always first. Yes, I get paid, and you'll know how. But my uncle showed me that always putting my clients' interests first, by serving and never selling, resulted in more business. That way, clients trust me to handle more of their investments and financial needs. In addition, clients who were confident that they were moving towards their goals and that their interests came first, naturally referred their friends to me.

"Secondly, I commit to **understand** your unique goals, priorities, and personalities. Everyone's situation is different, and I'll ensure that we are all clear on where we're starting from, where you want to go, and how comfortable you are with various approaches for getting there.

"To coach you effectively, part of this means that I need to know your full financial picture: all of your

investments, assets, debts, and income. Obviously, I can't do my job if I don't know the true score. This doesn't mean that I need to manage all of your investments, but I do need to know what they are. That said, most clients do want me handle all of their financial affairs after they experience the behavioural coaching approach and implementing the secrets of the rich that make sense for them.

"Third, I will **educate** you on alternative approaches that apply to your goals, focusing on behavioural solutions. I'll make sure you understand the pros and cons of different strategies, so you can act on what makes the most sense for you.

"Finally, I will **coach** you to move closer to your goals. Having coached many sports teams and hundreds of clients, I've learned that results depend on good strategy and good execution. Rarely is one enough. So based on your priorities, I'll guide you towards solutions that you are most likely to start, stick to, and thus benefit from."

"I noticed that you said you would coach us to move clos***er*** to our goals, without saying that we would achieve them," I noted. "Why did you use the word 'closer'? Aren't our financial goals achievable?"

"So far, we haven't defined any measurable goals, just priorities. But yes, I'm confident that in a year or two, you will both be feeling much better about your financial future," Bruce reassured us. "But my choice of the word 'closer' is not an accident. It relates back to your desire to improve your investment returns.

"Over the years, I've done a number of seminars for various companies and associations. Before I speak, I usually mingle with the crowd and ask people what they are hoping to learn. One of the most common responses I get is, 'What do you think the stock market will do in the next year?' And every time, I respond the same way. I calmly look them squarely in the eye and tell them, 'I have no clue.' You can see disappointment sweep across their face when they find out they've committed two hours of their busy life to listen to a so-called financial expert who doesn't even have a clue about the markets.

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"But then I give them the more valuable half of my answer: 'And no one else knows, either! Even the chairman of the Federal Reserve for the U.S. central bank – the most influential financial position in the most powerful economy on the planet – does not *know* where any stock market will be in a year. So my suggestion is that we **don't focus on what is unknowable and uncontrollable**, but instead build financial plans based on parameters that we can influence.'"

"I guess it's not reasonable to expect anyone to predict the future," Michelle conceded. "At least not accurately. But how does that relate to wanting better investment returns?"

"It links back to the reality that just like no one can accurately predict the stock market, no one can choose investments that consistently deliver above-average returns, even in the long term," he explained. "There will be years when your investments will perform above average, and others when they will disappoint, but the mathematical truth is that, on average, your investment returns will be, well … average.

"I need you to know up front that I won't and can't promise you superior investment returns, because on average, they won't be. But if together we **focus on being better at what we *can* control – the strategies we choose and how well we execute them** – we can produce significantly better-than-average wealth in the long run. This is the essence of what I strive for in coaching my clients: more effective strategies and execution.

"As just one example of how behavioural coaching helps my clients, consider the reality of most equity investors. My uncle taught me very early on that **the key to success when investing is not invest*ment* performance, it's invest*or* performance**. This critical message is the essence of one of my favourite books, *The Behavior Gap*, by Carl Richards.

"Studies consistently show the returns that the average investor achieves in equity funds are significantly lower than the returns achieved by the funds themselves. For instance, historically the long-term returns of equity funds – those that invest in company stocks – were in the

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neighbourhood of ten percent. However, when investors put money into these same funds, the returns that *they* personally achieved were closer to four percent. This difference – that Richards appropriately labels the behaviour gap – means that the average investor could be losing over half of the market returns due to poor investor behaviour.

"If, by trying to guess where the market is going and chasing last year's winners, the investor behaviour gap is five percent and turns ten percent investment fund returns into five percent investor returns, this difference in your retirement fund isn't a factor of two, as many would suspect. Due to compound growth over a 30-year period, **the client** with a behaviour coach **that gets the full investment returns has a retirement fund that is four times larger** than one with average investor returns.

"That's one example of how coaching on the execution side alone can make a huge difference," he concluded. "And that doesn't include applying any of the many strategies the rich use to take advantage of opportunities to build wealth faster.

"So to summarize, **my commitment to you is to serve, by understanding, educating, and coaching**."

"So what's our part?" I asked, still digesting what had been said.

"To best achieve our mutual goal of maximizing your financial success, your role is to also do four things," Bruce began. "Some of them we've already started or talked about.

"The first is to **be clear and true to your priorities**. This is usually the hardest part, because many people have simply not given much thought to what they want the most. For every individual, let alone a couple, it takes time and careful consideration to resolve conflicting priorities, to identify your personal currencies, and to be clear on which ones are most important. This is why I had you quantify your priorities on a scale of 0 to 10. Only by doing this properly can you direct your existing resources and 'new money' towards what matters to you most. This requires being completely honest with yourself, each other, and me.

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"As an equity investor, both your portfolio and, more importantly, your emotions will experience a roller-coaster ride of highs and lows. Your most important task is to determine what type of roller-coaster you can handle so we can build a plan based on what you're comfortable with. One of you might be more aggressive and comfortable using strategies focused on offense, while the other might be more conservative and prefer a defense-only approach. These are important issues to be clear on, and I'll help you through them."

"I think you're right," Michelle reflected. "We'll have to give more thought to what our real priorities are. I can see how our short-term, want-it-get-it approach isn't the best way to achieve our long-term goals, though. So what else do we need to do?"

"Your second task is to **be open to learn new approaches**. If you only consider two of ten possible ways to get to your destination, you're probably not taking advantage of the most effective route. Based on our conversations at the arena, I sense you're both already keen to learn, partly because you have a sense of how Lisa has benefited.

"But it is critical to have and maintain an open mind. Sometimes, it's not what you don't know that's the barrier. It's what you think you know, but isn't true. Remember that, at one point, most people believed the earth was flat. That false belief made it a lot harder to take advantage of the more efficient route of sailing west from Europe to reach the Orient.

"We've already touched on the third commitment, to **pre-commit to ACT** on what approach most effectively moves you towards your highest priorities, even before we discover what that is," Bruce continued. "We know that the critical step in benefiting from any good idea is to ACT; that 'deciding to' or 'planning to' doesn't get that bird off the wire.

"Pre-committing to ACT is one of the key components of your success, because it overcomes one of the natural barriers to making a change for the better: what Newton called inertia, or the preference for things to stay the way they are.

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"For countless people, change is uncomfortable, even if it's a positive change. But if you pre-commit to implement the best strategy, the hard part is already over. You're much closer to realizing the benefits. Then, we can focus on exploring and understanding more effective alternatives to move forwards.

"And as we've discussed, you're going to achieve your goals faster if you consciously pre-commit to direct any 'new money' towards your highest priorities. Does that make sense?"

"It does," I agreed, watching for Michelle's reaction. "We don't want to be on a budget that dictates what we can spend money on, but I like the idea of having a commitment that automatically moves some of our money in the right direction. What's the last commitment on the clients' side of the Coaching Agreement?"

"The final commitment is to **Teach Two**," Bruce stated mysteriously, waiting to be prodded.

Michelle obliged. "What do you mean by that?"

"If you Teach Two people about some of the ideas you find valuable, everyone benefits more, starting with you and extending to others you care about. The selfish reason is that you're more likely to personally benefit."

"How so?" I asked. "Through referral fees?"

"No," Bruce laughed. "Have you ever taught something to someone else?" Bruce queried.

"I have," Michelle replied. "A few years ago, we had a consolidation at the retirement home where I work. The merger meant new procedures in a number of areas, and I was responsible for bringing the nurses up to speed on the new patient care process at both locations."

"And, initially at least, who learned more: you as the teacher, or those you taught?"

"I definitely did. I needed to understand the changes completely before introducing them to others."

"And that, Michelle, is the first reason to Teach Two. In the process of teaching, you'll better understand the ideas, become more comfortable, and then are more likely to …"

"Act," I finished.

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"Which means you're more likely to not just start but stick to the idea that benefits you," Bruce continued. "Partly because of your deeper understanding, and also because you're now the coach – you're the leader who others are expecting to 'walk the talk.'

"There's another, perhaps bigger, reason to Teach Two. Have either of you seen the movie *Pay It Forward*?"

Michelle, the movie expert in the family, nodded. "Yes. That's where a grade school teacher challenges his students to come up with a way to change the world for the better and put it into action."

"That's right, with Kevin Spacey and Helen Hunt. The hero of the movie, a seventh grader, comes up with a plan where people do a good deed for three others in advance – to 'pay it forward,' instead of paying back a favour. This simple, selfless idea catches on and spreads, going viral as it helps countless others and even saves lives.

"Remember how most people are financially illiterate because we're not taught about money? Well, the Teach Two concept is really applying the 'pay it forward' idea to money. Sharing some of the ideas that you learn can benefit others financially, and you help far more than those you care about, because if you teach two, and they each teach two, and …"

"… Lots of people benefit," Michelle finished.

"And in some small way, society as a whole is better off because the financial health of the nation boils down to the financial health of its individuals. If the general public hasn't saved enough for the future, it puts a real strain on government retirement programs."

Thinking back to fifteen years ago, I wondered something. "Is this Teach Two concept what prompted my Dad to recommend that Lisa and I see your uncle?"

"No," our new coach replied easily. "I'm sure your dad was just being a caring parent.

"If you agree that the Teach Two idea helps you and others, my **'*Help a Friend*' campaign makes it easier to spread the word**," he said, as he handed me a copy of 'The Behavior Gap.'

"What's the '*Help a Friend*' campaign about?"

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"If a friend of yours knew of a way that you could benefit significantly, and he didn't tell you about it, how would you feel?"

"I wouldn't feel very good, and might have to question his definition of 'friend.'"

"If any of these ideas can benefit you, then along the 'pay if forward' theme, you can '*Help a Friend*,' by letting him know how he, too, could benefit. If you have a friend, co-worker, relative – anyone you think could benefit from learning more about increasing their wealth and security – just let them know they can receive a free personal finance book by contacting me. Or you can deliver it if you prefer. There's no obligation."

"You give away free books?" asked Michelle, leaning forward in her seat.

"As I just did with you," Bruce confirmed. "And not just this one. I have a few I use as part of my '*Help a Friend*' campaign. It's an effective way to let my clients' friends know about my behavioural coaching approach and some secrets of the rich that could improve their financial future. As a bonus for me, I only deal with those genuinely interested in how I can help them. And the friends who become clients are more educated, able to ask better questions, and easier to coach.

"But please don't think that giving away books with the '*Help a Friend*' campaign is a substitute for Teach Two. I don't think you truly understand something until you can explain it to your grandmother, and teaching a concept to two friends is a win-win way to start."

"I like that," I said, glancing at the book, then over at Michelle.

"Don't worry. I'll read it and make notes to share with you. Joe's more of a verbal learner," she expanded explained for Bruce. "You don't give away audio books, do you?"

I wasn't sure if she was teasing or trying to be helpful.

"Sorry, not yet," he replied. "So what do you two think about the Coaching Agreement? Do you think you can **commit to prioritize, learn, do, and teach**?"

"I like the educational, coaching approach, especially because we know so little about financial planning," I

said. “We’ll invest some time to clarify our priorities and get you the information you need for our full financial picture. As for committing to acting and sharing ideas with people we care about, I’m pretty sure we’re in. Right, Michelle?”

She nodded as Bruce continued, “Great. Now, do you have any questions for me?”

“Not at this point, but when we do, we’ll ask,” Michelle promised. “We’re new to your approach, so what’s next?”

“Well, one of the first behavioural solutions that I address – and that almost all of my clients act on – is to get started with the most valuable three words in all of financial planning.”

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The Most Valuable Three Words

"Set it and forget it with cruise control."

"What are the most valuable three words in financial planning?" I asked.

Michelle piped in. "A recently divorced girlfriend told me that the key to financial success is 'always marry rich.'" She smiled. "I missed that boat. Is there a better way?"

"That's not what I was thinking," the advisor declared. "But on a related note, marrying the right person and staying married is a solid recipe for increasing your quality of life and your finances. If you divorce, your wealth is usually reduced to a third."

"A third? Why a third?" I was puzzled. "Doesn't divorce split your net worth in half?"

"Sadly, no," he explained. "The reality is that too often divorce splits the family assets three ways: a third for her, a third for him, and of course … a third for the lawyers!"

"So, it's a valuable financial strategy to stay married," I mused. "Honey, I guess you're stuck with me."

"So what are the three most valuable financial words that don't involve marriage counselling?" asked Michelle, getting back on track.

"For most people who aren't already wealthy, **about half of financial success can be achieved by acting on one simple strategy** – three words that you've probably already heard: **Pay Yourself First**. If people automatically invested ten percent of their income in a tax-sheltered RRSP or TFSA before they got could spend it, they could make a lot of mistakes with money and still end up with a comfortable retirement.

"If you didn't already, in less than ten seconds, you've learned half of what it takes to establish short- and long-term financial security. Paying yourself first is as fundamental to financial success as skating is to hockey.

The good news is that anyone can do it, because there's absolutely no skill required."

"We have heard of pay yourself first, and how the magic of compound interest turns even small monthly savings into significant amounts in the long run," I acknowledged. "But all of our money was already going to the mortgage, vehicle payments, and all the extra expenses with the house and kids. Then we moved into a bigger house with a bigger mortgage. It never seems to end. We started using credit to cover the gaps, and now we're thinking we should focus on reducing our debts before putting money towards saving."

"Joe, you've highlighted a common barrier that appears to prevent you and millions of other Canadians from paying yourself first," Bruce reflected. "What I'm hearing is that high debt levels and expenses leave little or nothing left over for savings. Is that correct?"

"That's right," I confirmed. "And when there is some extra money that isn't already spoken for, we feel that reducing our debt should be our priority right now, even beyond the kids' education and our retirement."

"As I outlined in the Coaching Agreement, my role is to simply coach you to apply effective strategies to move you towards your most important financial goals. You've clarified your priorities, and said that reducing debt is a 9 out of 10 in importance, increasing education savings an 8, and retirement a 7. As you two dig deeper into the personal currencies that you value the most, those numbers might change. But let's work with them for now.

"Can you both commit to being open to ideas that might be more effective in achieving your priorities?"

"Absolutely," I asserted. "We're interested in learning about anything that can help us."

"And can you pre-commit to act on whatever approach is best for you, even before we determine what that is?"

"If it makes sense to us, and we're confident that it should benefit us, I can commit to move forward. Can you, Michelle?"

"That's why we're here," she concurred. "We know there's lots we could be doing differently, mostly because we don't know what to do. But if you help us understand

a better way, we won't just sit on the wire. We'll fly with it."

"That's good to hear. Surveys consistently show that while a high percentage of Canadians 'plan to' contribute to their retirement savings, only a small portion – typically less than half – actually do. My job is to ensure you're in the minority who does.

"Do either of you have a retirement savings plan at work where your employer matches some of your contributions? If you belong to one of these defined contribution plans – where you and perhaps your employer both contribute to your retirement fund – they'll sometimes match 50 percent of your contributions."

"We don't, but the first company I worked for had one," I recalled. "When I moved up to a manager's position at a smaller company, they didn't offer one."

"Well, if things change and this is ever an opportunity again, jump all over it. **Employer-matching retirement plans are the deal of the century**: automatic savings that increase with your income, possibly a third of the contributions coming to you free as an employee benefit, and tax-sheltered growth into diversified funds.

"Unbelievably, not everyone takes advantage of this amazing opportunity where an employer is literally giving away free money. To put it into a currency that you better appreciate, for middle-income earners, it's as if your employer offered to send you on a free, two-week vacation in the Caribbean every year, but you say, 'No thanks.'"

"That wouldn't happen with us. If we can ever take advantage of a retirement plan where our employer matches some of our contributions, trust me, we'll sign up right away. We'd be silly not to," I declared. "But in the meantime, how are we supposed to setup a regular savings plan when we're not keeping up now?"

"Everyone has limited financial resources," the Smart Debt Coach responded. "The way to maximize the quality of your life is to consciously, intentionally **put your big rocks in first**."

"What do rocks have to do with financial planning?"

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"In his book *The Seven Habits of Highly Effective People*, Stephen Covey illustrates that there are different ways you can fill a bucket, representing your life. If you had to fill it with big, fist-sized rocks, *and* some pebbles, *and* some sand, you can get them all in – but only if you put the big rocks in first. If you get them in first, even though it looks full, you can still add pebbles, and then sand to the bucket – but it *has* to be done you do it in that order. If you put the sand and pebbles in first, there won't be enough room for all of your big rocks – your highest priorities.

"The same is true for your limited disposable income. We all have a choice about how to direct it. If we're not clear about what our big rocks are, and don't implement a strategy to put them in first, the thousands of retailers who tempt us every day with *their* priorities will have our buckets so full there won't be enough room left for our highest priorities. Does that make sense?"

"Yeah, and it sounds way too much like the way we've been handling our financial life," Michelle lamented.

"Paying yourself first means being true to *your* highest priorities *first*. I'm here to help you be clear on what your big rocks are, and find the most effective way to get them in your bucket first."

Bruce paused, established eye contact with each of us, and leaned forward before proceeding. "If you're happy with the way things are, don't change anything. If you're not, consider a bit of ancient sailing wisdom: 'If you don't change your direction, you'll likely end up where you're headed.'

"I can tell you that based on everything I know about financial planning – from countless books, my uncle's tutoring, and all of my years dealing with clients – **there is no easier, simpler or more effective way to get you moving in the right financial direction than to pay yourself first.**

"Like cruise control on a car, you simply set it and forget it. From then on, you automatically move towards your savings priorities. That allows you to deal with all of life's other challenges with the confidence that the foundation of your financial success is on track.

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"We know that the critical step in benefiting from good ideas is to ACT on them. With everyone so busy with a never-ending list of things to do, it's better to **use automatic ways to get things done, whenever possible**. Put as much of your financial life on cruise control as you can – bill payments, savings, and even investment strategies. That not only ensures it gets done, it ensures it gets done as efficiently as possible, with no additional effort or thought."

Despite his clear conviction, I was skeptical. "Everything you've said makes sense, on paper. Our big rocks to save go in our bucket first: great idea. Set aside 10 percent automatically: I see the benefits. But how are we going to meet all of our financial obligations *and* reduce our debts on only 90 percent of our income?"

"As powerful as paying yourself first is," replied Bruce, "there is a simple upgrade that my clients benefit from automatically. Incorporating it not only improves the traditional concept, it also leads to a new, almost painless pay-yourself-first approach."

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A New, Simple Way to Boost Retirement Savings

"Would you work for the same pay forever?"

"If the most valuable three words in financial planning are 'pay yourself first,' what could be more powerful than that?" I asked. "And how can it be done in a painless way? Covering all of our expenses on 90 percent of our income doesn't sound painless to me."

"And I have no idea how we'd reduce our debts on that," Michelle joined in."

"Joe, when you applied for your current job, if the pay had been five percent less, would you have taken it anyway and still enjoyed a good lifestyle?"

After some reflection, I shrugged. "Probably, but I thought the concept was 'pay yourself first ten percent.'"

"The most important aspect of paying yourself first isn't the amount, it's the doing. It's establishing the habit of moving forward and increasing your savings, which you said is one of your big rocks, or highest priorities. That's why I didn't say the most valuable five words were 'pay yourself first ten percent.' Let me explain how the pay-yourself-first concept can be improved to make it even easier to boost retirement savings, especially for those who find it difficult to get started.

"What would you think about being paid the same amount you earn today, ten years from now?"

"I don't think either of us would like it," Michelle replied.

"Why not?"

"Because, even without any promotions, we wouldn't be keeping up with inflation," she explained. "We'd actually be behind where we are now because the cost of living keeps creeping higher over time."

"Interesting," Bruce offered, waiting for us to make the connection. "Joe, when you were learning how a pay-yourself-first plan turned even small, regular investments into significant amounts over long periods,

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did any of the examples show the monthly deposit increasing slowly over the years to keep up with inflation?"

"None," I realized.

"For someone's income to just keep up with the average, long-term inflation rate of about three percent, their income would double every 25 years," Bruce went on. "That means that if someone started a pay-yourself-first plan automatically investing ten percent of their income, their monthly deposits should also slowly inflate each year. Eventually, it, too, should be double the amount they started with."

"That makes sense," I noted. "Don't pay-yourself-plans do that?"

"If you're investing into a plan with your employer that is based on a percentage of your income, your savings would automatically increase as your salary goes up. Unfortunately, most financial institutions don't currently offer monthly savings programs that automatically increase the amount deposited. But I'm sure that will change soon, for a few reasons.

"As your sister knows, my uncle and I have been this for clients for over twenty years. The client agrees on an appropriate rate to inflate their deposits each year, and we do it for them so it happens automatically. As we've learned, **what is automatic gets done**, with no additional effort."

"Don't some government support programs automatically increase to keep pace with inflation?" Michelle inquired.

"Many do," replied Bruce. "The minimum wage, Old Age Security, even our tax brackets are indexed with inflation to avoid bracket creep. **By default, all pay-yourself-first plans should be automatically increased to keep up with inflation** too.

"Inflating a monthly savings plan by two percent might not sound like much, but it's a simple, truly painless way to make a meaningful increase to your retirement fund. As any coach will tell you, big improvements come from small changes applied consistently over time."

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"Is that what you meant by a painless pay-yourself-first approach?" I reminded. "I see how it makes sense to increase a $100-a-month savings plan to $102 a year later to keep up with two percent inflation. But this doesn't make it less painful to cover all of our expenses on 90 percent of our income."

"That's not what I meant, but it's related. Recognize that if your income increases two percent annually, inflating your monthly savings by two percent annually just maintains your initial savings commitment. If you didn't, you'd gradually be investing a decreasing portion of your income and less than you initially intended."

"So how can we make the savings process less painful?" Michelle pressed.

"You said that Joe's not happy about his weight. Let's say that Joe wanted to lose a few pounds and get back to having the six-pack abs of his youth by doing sit-ups. He consults a fitness coach who accurately assesses that Joe can achieve his goal by doing 200 sit-ups a day.

"Assuming Joe hasn't done many sit-ups since his high school gym class, which approach is he more likely to *start*: going from zero to 200 sit-ups a day, or starting with 20 a day then gradually increasing to 30, 50, 80, and eventually 200?"

Michelle leaned back in her chair and gazed at me. "I'm still trying to picture Joe doing 200 sit-ups. Are you thinking about a different Joe?" As I said, my wife's support is sometimes easily misinterpreted.

Bruce graciously ignored the marital jab, and resumed. "Almost all of us will find the start-small-and-increase-slowly approach less intimidating, making it more likely that we start. Just as importantly, which approach is Joe more likely to *stick to*, and thereby realize the long-term benefits?

"If you think that paying yourself first ten percent would be too much of a strain, try this approach. Instead of living on 90 percent of your income when you're used to 100 percent, save using a Painless Pay-Yourself-First approach, where you initially invest only five percent of your income, or even three percent if you have to, and inflate your savings by say ten percent each year."

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A light dawned for me. "Oh, that's why you asked if I would have taken my job for five percent less pay."

"That's right. And you said you would have. A few clients – not many – have reported a modest impact from saving ten percent of their income, but no one has even noticed an impact with a Painless Pay-Yourself-First approach. It's almost like a stealth strategy for savings. The initial savings commitment is almost unnoticeable, as are the annual increases. But the habit of saving automatically gets started and builds slowly over time.

"So **the Painless Pay-Yourself-First approach is to simply start small and increase slowly**. After defining your big WHY, the four magic words for sustainable change are 'start small, increase slowly.'"

"I like that approach," Michelle mused. "It's a sneaky way to achieve a result that you want anyway."

"Inflating your pay-yourself-first plan is a nice combination of effective strategy and effective implementation," Bruce contended.

"One of the big barriers to saving for retirement is that if the task *seems* too difficult in any way – too much of a sacrifice, too complicated, or too much effort – many people throw up their hands and don't even try, thinking that it's impossible to succeed. An important additional benefit of appropriately inflating your pay-yourself-first plan is the realization that **funding your retirement doesn't require saving as much of your income as was previously thought**, based on assumptions that ignored inflated deposits.

"In most cases, saving eight percent of your income and inflating deposits by three percent produces a larger retirement fund than saving ten percent without ever ramping up deposits. Additionally, eight percent is far less intimidating and much easier to commit to."

"Maybe the three most valuable words in financial planning should be upgraded to **the five most valuable words: 'Pay yourself first and inflate**,'" Michelle suggested.

"Well said," Bruce agreed. "More people would start paying themselves first, and they would appropriately

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save more with either no or negligible impact on their standard of living."

Michelle seemed to be on board. For once, I was the one with concerns about the best way to meet our security needs. "We see why it's important to start the habit of savings, and how it's much easier to start small and increase slowly, but I keep circling back to this: Isn't it more important to reduce our debt – which is also one of our big rocks – and then focus on savings?"

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The Keys to the Debt vs. RRSP Dilemma

"Need to stockpile nuts to survive
the winter, and perhaps the summer"

"I understand why you keep coming back to that," Bruce said. "It's an excellent question and an increasingly important one. More and more people are dealing with high debt levels and are behind on retirement savings. For most middle- and upper-income Canadians, the tax savings and tax deferral of an RRSP make it the vehicle of choice for retirement savings. As a result, the debt-versus-RRSP question is one of the annual dilemmas that investors face each winter.

"But let me turn it around for a second. What have you two heard about whether it's better to pay down debt, such as a mortgage, or contribute to an RRSP?"

"As you've learned, we know little about finances," I acknowledged. "But I think I remember hearing something about putting your money in an RRSP first, then using your refund to pay down your mortgage."

"That's what I heard," Michelle seconded.

"You're right," Bruce announced. "Doing both – RRSPs first and paying down debt with the refund – is the answer most often given. But before I offer what I think is the key to assessing what's best for you, let me ask another question. If I came to you to find out if Option A was better than Option B, and you told me to do both, did you really tell me which was better?"

Michelle's eyebrows shot up. "I suppose not!"

"My point is that if the RRSP is the best strategy for your money initially, then why would you want to put the refund into the second-best strategy?

"Don't get me wrong. They're both good strategies, but if one is twice as good as the other, don't you want to know which is better? And there is real merit to diversifying into more than one strategy, as we'll see

later. But in my opinion, **the do-both response to the RRSP-versus-debt dilemma is a convenient non-answer**."

"Wow. So what is better, RRSPs or paying down debt?" I asked.

"The short answer is that … it depends. If you really want to know, there are a number of parameters that are important for assessing what's best for your unique situation. In addition, there are other considerations that might completely override which strategy is mathematically best."

"What do you mean?"

"Let's start with a mathematical comparison," Bruce commenced. "Two of the obvious parameters to account for are what your RRSP returns are and the interest rate on your debt. The wide range of debt rates and returns is one of the reasons that a simple rule-of-thumb answer doesn't apply here."

Michelle nodded. "That makes sense. There's a big difference between paying down a mortgage at four or five percent and a credit card charging 20 to 30 percent."

"But there's another parameter that's almost always overlooked that can be more important than returns and debt rates. Can you guess what it is?"

I had no clue, but Michelle's insight reminded me that I married for more than her good looks. "I don't know exactly, but since you've said several times how important behaviour is, and how your financial planning focus is based on behavioural coaching, I'd guess it has something to do with behaviour."

"Bingo. The critical key to doing a proper financial assessment of whether you should pay down debt or invest in RRSPs is the behavioural factors. Specifically, how disciplined a saver you are in two ways."

"What's the first?"

"We've already talked about the behavioural issue with RRSPs, and how spending the refund results in investing less than you intended and need to save."

"You said we should never put dry pasta in our RRSPs," Michelle recalled.

"You remembered," Bruce grinned, clearly satisfied with at least one of his coaching efforts. "Obviously, the

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behavioural factor of what investors do with their RRSP refunds – whether they're spent, reinvested, or grossed up to the equivalent before-tax amount to turn dry pasta into cooked pasta – can make a difference of 25 to 85 percent, as we learned earlier."

"What's the other behavioural factor?" I asked, more determined to not be upstaged by my increasingly savvy wife.

"The other behavioural factor is what happens when the debt, let's say it's a mortgage, is paid off. **What portion of that 'new money' that used to go to mortgage payments actually gets invested**, now that it's available for savings? As David Chilton wisely points out in his book *The Wealthy Barber Returns*, merely investing all of the mortgage payment cash flow once the mortgage is gone isn't the right amount for an apples-to-apples comparison."

So much for my determination not to be upstaged. I looked at him blankly. "I don't understand."

"Let me illustrate with a simple example. Let's say that Mary and Rob both have annual mortgage payments of $15,000, and each has an extra $5,000 a year that could be used to pay down their mortgages or invest in RRSPs. So they each have $20,000 a year to direct towards their mortgage and perhaps RRSPs.

"Rob uses his $5,000 a year for RRSP contributions. Mary uses her additional cash flow to reduce her mortgage balance by $5,000 each year. She pays it off roughly five years earlier.

"To invest the same amount as Rob, how much should Mary invest in RRSPs during the five years after her mortgage is paid off?" Bruce tested.

After reflecting briefly, I thought I had the answer. "She needs to invest $20,000 a year, not just the $15,000 mortgage payment amount."

"That's correct, and too many don't realize that," Bruce confirmed. "A lot of mortgage-first thinkers feel that if they're disciplined enough to invest all of their mortgage payments when the mortgage is gone, they'll be on par with RRSP Rob's commitment level. But remember, they were both 'investing' $20,000 a year in total. Each

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allocated $15,000 for mortgage payments and $5,000 went to either RRSPs or to pay off the mortgage earlier, so there would be more cash flow to invest later."

Bruce leaned back, silent, as if waiting for us.

"I can't put my finger on it, but somehow I sense there's more to this," I ventured.

"Very perceptive!" Bruce smiled. "We still need to combine both behavioural issues to determine how much Mary should be putting in her RRSP once she's freed up her mortgage payments. Let me offer a clue: pasta."

"I think I know. All of the amounts in your example are after-tax dollars," I said, impressing myself. "The equivalent RRSP amounts – the larger, cooked pasta, as you call it – are more."

"Exactly," Bruce acknowledged. "You two are really grasping the fundamentals well! If your implementation of wealth-building strategies is as good as your understanding of them, I'm confident you'll achieve all of your financial goals and more."

"That's great to hear," Michelle responded. "I'm sure we're not the fastest learners, but we're committed to being more effective with our money."

"I'm sure you will be," Bruce encouraged her. "So far, we've just discussed the basics. We haven't looked at how to reduce bad debt and free up more money to invest, both of which are guaranteed to increase your wealth. Later, we'll get into more powerful investment strategies used by the rich, including common sense ways conservative investors can outperform the market.

"But for now, let's finish addressing whether it's better to focus on paying down debt or saving in RRSPs. To keep the numbers really simple, let's assume Mary and Rob are in a 50 percent tax bracket. Yes, the tax bracket for most middle-income Canadians is closer to 33%, but we'll see that the critical point does not require precise math.

"So with our 50 percent tax bracket, that means that one dollar in an RRSP is worth fifty cents after cashing in and paying taxes. In other words, for Mary and Rob, an after-tax dollar to invest equates to how much in an RRSP?"

Michelle was on it. "Two dollars. If taxes are 50 percent, cooked pasta is twice as big as dry pasta."

"Correct. So let's apply the after-tax versus before-tax reality to Mary and Rob, so we can understand how much each should be putting in RRSPs for an apples-to-apples comparison.

"The $15,000 that went to mortgage payments and the extra $5,000 a year each had to invest – were they after-tax or before-tax dollars?"

"After-tax dollars. A retired hockey coach once told me that, generally, we only get to spend or save after-tax dollars," I replied with a wink.

"So if Mary's putting an *after-tax* five thousand dollars against her mortgage each year, how much should Rob be putting into his RRSP to match Mary?"

"He needs to also invest $5,000 *after tax*," Michelle obliged.

"Which equates to how much in his RRSP, with our 50 percent tax bracket?"

"Twice as much, or $10,000 a year."

"In the same way, when Mary pays off her mortgage, how much should she invest in RRSPs to match Rob?"

I took this one. "They were each investing a total of $20,000 a year *after tax*. So Mary needs to continue to invest $20,000 after tax, which means contributing $40,000 a year to her RRSP. Wow! That's a lot."

"It is. And based on my experience, there are a lot of people who aren't aware of how much it should be. To keep up with her original commitment, and to match Rob for an accurate analysis of which strategy is best, Mary needs to put not $15,000, not $20,000, but $40,000 a year in her RRSP after her mortgage is gone."

"We would have had no idea," I confessed. "The difference between after-tax and before-tax dollars – between dry pasta and cooked pasta – is a big deal in understanding finances."

"And identifying the most effective strategy," Bruce agreed. "That's why whenever the rich think about money, it's always in terms of net, after-tax amounts, whether it's when they buy something or invest.

"Now that we've established how to properly evaluate the math of being a Mary or a Rob, let me be really clear on the behavioural factors involved.

"How many people are truly going to invest every penny of their $15,000 mortgage payments once they've finished their mortgage-burning celebrations? Wouldn't a lot feel justified in some enjoy-today rewards after years of discipline paying off the mortgage faster? Are some not going to feel that bumping their RRSP savings from nothing to say two-thirds of their mortgage commitment, or $10,000 a year, puts them ahead of most?"

"I would have," Michelle admitted.

"Additionally, whether it's because of less-than-perfect discipline, or because they don't understand the math, how many Marys are really going to contribute the full $40,000 annually when their mortgage is gone?"

"I'd say slim to none."

"Behavioural factors are key to our long-term success and one of the few things we can control," Bruce declared. "I like to help my clients understand the impact of behavioural choices and guide them towards their financial priorities.

"Even without a detailed analysis of what's best for an individual's unique situation, I think we can get to an answer that results in a larger retirement fund and, as a bonus, provides more short-term security – at least for the majority of people. Because let's face it, few of us have machine-like discipline.

"Do you have squirrels in your neighbourhood?"

That was an abrupt change of topic. "Yes, of course. Doesn't everyone? I spend my summers chasing them away from my bird feeders," Michelle complained.

"And in the fall, what do they do?"

"Oh, then they start digging holes all over my gardens, the pests. They take walnuts from my neighbour's tree and bury them everywhere."

"Why do they do that?"

While Michelle fumed about the squirrels, I leapt in. "To store away food for the winter."

"And if they don't stockpile enough nuts, would they make it through the winter?"

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"Wouldn't it be nice if they didn't," Michelle snorted.

"Born in the spring, baby squirrels mature quickly," Bruce continued. "Let's say they have 20 weeks as adults before winter hits, and they need 200 nuts to survive the winter. Now, let's pretend that squirrels get to choose how they stockpile the 200 nuts they need. They can stash away ten nuts during each of the 20 weeks of the summer and early fall, or they can choose to wait and put away 40 nuts during each of the five weeks right before winter."

Michelle was following him. "The 'more-later' approach sounds a lot like Mary paying off her mortgage first and needing to put $40,000 a year into RRSPs for five years."

"That might not be a coincidence," Bruce confessed. "Let's see if the squirrels can help you decide if you want to focus on debt or saving.

"First, consider which approach is more likely to produce the 200-nut stockpile needed to survive the winter. Assuming a 'more-later' squirrel correctly calculates that it needs 40 nuts each week – and most squirrels aren't great at long division – what if there aren't as many nuts available at that time? Or what if the squirrel wasn't able to gather *any* nuts, let alone four times as many as its cousins, because it had a debilitating run-in with a cat?"

"I like that cat," Michelle smiled.

I saw Bruce's point clearly. "So you're saying that even if Mary knew she needed to put $40,000 a year into her RRSP, the 'more-later' approach puts a lot of pressure on her. She has to be able to earn an income *and* have super discipline during those critical few years before retirement."

Our coach nodded. "It doesn't leave a lot of wiggle room for the possibility of income disruptions due to the economy or disability. And these days, does anyone, even people who work for the government, have job security?"

"Good point," I concurred. "We've both seen friends laid off, and some take a long time to find employment again."

"And even when they do, it's often at a reduced pay," Michelle added.

"But on the flip side, let's say one of us loses our job. Isn't it better to pay off our mortgage as fast as we can, to reduce the risk of losing our house?"

"I'll let you answer that," replied Bruce. "Let's say the major bread earner loses their job. Which is going to allow the family to keep the house: having at least $50,000 in RRSPs or having a slightly smaller mortgage and no emergency-income buffer? In the event of a long-term income drought – due to the economy, change in technology, company merger, disability, whatever – which gives more peace of mind to weather the storm?"

Michelle had her answer ready. "I don't like debt. But I'm more concerned about doing what gives us more financial security, both short term and long term. For me, that means we should focus on stockpiling nuts to get through the long winter of retirement. More importantly, that would also protect against long job losses that can derail everything. Don't you agree, Joe?"

"Completely. I see now that too many things have to go absolutely perfectly for the 'more-later' approach to be better in the long run. And it provides no additional income security in the short term. With no job security these days, you never know."

"There's another reason to focus on stockpiling nuts to get through the summer," Bruce suggested.

"What?"

"As Mark Twain half joked," Bruce replied, "banks will loan you money when you can prove you don't need it.

"But if you were in a tough spot financially and didn't have a job, do you think you'd be able to get a loan to get through the crisis, especially if it's wide spread? And you can't blame the banks. If you were trying to run a profitable business and not a charity, you'd probably do the same thing."

"So we have to take care of our own financial security," Michelle emphasized, "before any crap hits our fan."

"I'm not suggesting that RRSPs be your short-term emergency fund to handle temporary cash flow gaps," Bruce elaborated. "There are better ways to handle that.

"And while nuts owed to other squirrels must be repaid at some point, putting away enough nuts to get through

the winter has to be the priority. Even if other squirrels are stealing some of your nuts – negative returns causing your stash to shrink instead of grow – you can still succeed and get through the winter if you were disciplined to stockpile enough nuts.

"If there is such a thing as perfectly disciplined investors, they might opt to focus on paying down debts first if the interest rate on the debt is higher than the return they expect to earn in their RRSP. They recognize that paying down debts is a guaranteed return, and investing in equities never is.

"But unless you're a perfectly disciplined saver, **I suggest paying off any debt charging double-digit rates such as credit cards, and then building up an RRSP, first as an income buffer to protect against long-term job loss**, and secondarily for retirement. For most people, the peace of mind is more important than the math.

"After that, if you're keen on knowing whether it's mathematically better to pay down debt or invest for your unique situation, we'll look at that then. Does that sound like a game plan?"

"Sounds like a good one to me," I confirmed.

Bruce started gathering up his notes. "I've kept you long enough today, and I've got another appointment shortly. So to recap briefly, my role in the Coaching Agreement is to serve, by understanding, educating, and coaching you towards your top priorities. Do you remember your role in your financial success?"

"Our role is to prioritize our financial goals, learn openly, do, and Teach Two," Michelle recited dutifully. "We pre-commit to act on the strategy that we feel is best, even before we determine what it is."

"Excellent. You said your top priorities were to reduce debt, build RESPs, and save for retirement. When I suggested that half of financial success is possible by simply paying yourself first, you wondered how you could save ten percent when you're not covering all of your expenses now. I introduced the Painless Pay-Yourself-First approach …"

"Where we start small and increase slowly, inflating monthly deposits automatically each year," I recalled.

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Bruce was clearly pleased. “And while you liked the stealth approach that required saving an unnoticeable five or even three percent of your income initially to get the habit started, you wondered if it was better to pay down debts first.”

“Expensive debts like credit cards should always be paid off first,” Michelle said as she gathered her purse. “But after that, because of the behavioural factors and short-term security benefits of building RRSP funds, we decided it would be better to focus on saving before paying down other debts.”

“Joe, when you completed the introduction package, you indicated that your truck lease is expiring soon. You wondered how you might do better in this area.”

“Yeah, and shortly after that our mortgage is up for renewal,” I replied. “I was hoping you might have some ideas with that as well.”

“Those are large and ongoing costs, and there are a number of things that can make a big difference in reducing debts and freeing up more money for savings,” Bruce replied. “Maybe we’ll have a chance to talk about them while we’re at the Christmas tournament.”

“That’d be great,” Michelle said. “And I’m sure that Kim would like to be part of the discussions as well. Even though she’s in a higher income category than us, she appreciates learning about the secrets of the rich and your Smart Debt concepts.”

“That’s good to hear,” Bruce beamed. “I’m looking forward to the tournament. And to seeing Kim.”

“Well, we’ll let you go, and see you in next week,” I said. “After the tournament, I think we’re ready to start putting some of these ideas into action.”

“Then we’re moving in the right direction,” Bruce smiled in encouragement. “Have a great Christmas, and I’ll see you soon.”

“You too. We’ll see you at the tournament.”

As we drove home, I was starting to feel much better about our finances. While we hadn’t acted on anything yet, we had taken the first steps to get clear on our priorities and understand some of the fundamentals. I was looking forward to how the Smart Debt Coach could

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help us improve our vehicle and mortgage situation and then how to invest to build wealth like the rich do.

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Part Two

Reversing Slower by Reducing Bad Debt

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The $46,000 Question

"A simple liquid worth $46,000"

Christmas came and went with the usual enjoyment of the holidays, connecting with family and friends. Michelle and I still hadn't decided if we were going to take the family down south to join my sister's over March break, but we had almost two months before we needed to cross that bridge.

In addition to the normal busyness of never-ending social commitments, Chris's hockey tournament took us out of town for a few days.

When we arrived in the stands to watch the first game, Kim and Bruce were already chatting. We hadn't seen Kim for almost two weeks, and she was just back from a trip to an island over Christmas.

"Hi guys," Michelle said, hugging Kim warmly. "Kim, how was your trip to St. Lucia?"

"It was truly great," our friend replied enthusiastically. "It was a nice break to get away from it all and spend some quiet time with the kids. Ben and Justin really enjoyed it too, for the most part. It was our first big vacation without their dad, so they acted out a bit. It wasn't quite the same with just the three of us. They probably just missed their friends, too. You know how teenagers are."

"We're starting to," Michelle grinned. "Most of the time Chris and Jess are great, but there are other times when I think that if couples considering having kids realized that those adorable babies eventually turn into teenagers, overpopulation would cease to be a problem."

I turned to Bruce. "So, as an ex-coach, how does the team look for the tournament?"

"They look better now that Ben's back. They really missed his golden touch. I'm sure they'll compete well, but no matter what happens, they'll have a good time."

"And so will we!" Kim promised.

After enjoying the first part of the game, I seized on a pause in the conversation to tap into our financial coach's real field of expertise.

"Bruce, I was wondering if you could share any lessons from the rich that apply to getting a new vehicle," I inquired. "As you know, my truck lease is up soon."

"That's right! Well, vehicles in general are one of our biggest expenses after housing, and most are financed in some way, which only further increases the cost.

"The starting point of all Smart Debt strategies is to reduce bad debts as much as possible. Like the Debt Swap and Gross Up strategies, **any concept that reduces the amount of bad debt, or the cost of it, is a 'can't-lose' strategy and is guaranteed to increase your net worth**.

"While debt needed to acquire a vehicle that allows you to earn a higher income might be considered 'good', when it comes to vehicles, the less debt the better."

"They do start to depreciate the second you drive them off the lot," Michelle reminded me pointedly.

Bruce nodded. "Since you asked about what the rich do, I'll point out that the authors of *The Millionaire Next Door* cite the number one characteristic of the wealthy is that they're 'frugal, frugal, frugal.' Houses and vehicles are two of the most common ways that people attempt to Appear Rich, but it's at the expense of not having enough left over to invest to truly become rich.

"Specifically, the millionaires next door do not drive expensive, new cars, even though they can afford to. They allocate their money in ways that generally increase wealth. They recognize that vehicles do only depreciate and lose their value very quickly."

"So does that mean that we shouldn't own a nice vehicle?" I asked, downcast. "I mean, you want something that's reliable."

"Of course," Bruce declared. "But it makes sense to reduce this necessary expense as much as possible, which generally results in reducing debt as well."

Michelle, who would be happy to see me in a 1976 Beetle, leapt in. "That's what I say! So how can we do that?"

"The most basic way is to hold onto your paid-for vehicle a little longer, and to **change vehicles every six or seven years, instead of every four or five**. But that doesn't help people who lease, who permanently have the additional expense of financing."

"Didn't you say that a Debt Swap could be used to lower the cost of any personal debt, including car loans?" asked the sharp-minded Kim.

"Yes, it can," an impressed Bruce smiled. "And swapping the debt on a car loan can be done anytime, not just when you're changing vehicles, because car loans are generally fully open and can be paid off any time, without penalty.

"So, Kim, what do you do when you're buying a vehicle?" I wasn't sure whether he hoped for new financial insights or to get to know the single mother better.

"I try to **minimize the total cost over the long run**," she replied. "My car doesn't have to be fancy, but I do need a vehicle that's reliable, with a good track record. I don't look at the monthly payment; I focus on the overall cost. A low monthly payment can be too tempting. I think that when some people find a car they like, if they can afford the monthly payments, they go for it."

"I agree with you," Bruce sighed. "Vehicle financing has been at the leading edge of how society became able to afford bigger-ticket purchases, and the evolution of the payment mentality. Loans replaced saving up until you could afford to pay cash. Then, to reduce monthly payments and make cars seem even more affordable, leasing was introduced. And there, you financed only part of the total price. Then the purchase price of vehicles started to disappear from ads, and it became all about 'the low monthly payment.'"

"The last time I looked at a vehicle ad, the dealer didn't even specify the monthly payment," Kim recalled. "It only showed bi-weekly and weekly payments. And on top of that, instead of a four- or five-year loan, the payments stretched out to seven years."

"I think we can see the trend," Bruce speculated. "It won't be long before we'll see car ads highlighting

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payments of only a few dollars a day, with terms as long as some mortgages."

"So you're saying I shouldn't lease?" I clarified.

"I'm suggesting that generally, the wealth mentality is to own versus leasing, and to own longer term, not trading up regularly or paying the additional costs of financing forever.

"But, Joe, if you're committed to upgrading your vehicle, the most valuable suggestion I can offer is represented by this small bottle of liquid." Out of his pocket, Bruce produced a small spray canister of liquid which clearly he himself had labelled, "Worth $46,000."

Bewildered, the three of us looked at it, then at each other, and finally back to Bruce. Finally, I asked the obvious. "I'll bite. How can that bottle be worth $46,000, and what does it have to do with vehicles?"

"Apart from the price, what's the most noticeable difference between a brand new vehicle and one that's a year or so old?"

The three of us thought for a minute. Then Bruce pumped a tiny mist from the canister and waited.

"You're right. It's the smell!" Michelle burst out. "New cars smell … like that! Like new cars. Where'd you get that?"

"I got it at Canadian Tire," the spritz-meister laughed. "For a few bucks, you can get a spray or an air freshener that you clip into the car vents. Either way, you can keep your car smelling like new for as long as you want, for almost nothing."

"But if you only paid a few bucks for the new-car scent, why is it labeled 'Worth $46,000?'" I asked. "I wasn't planning on spending *that* much on a truck."

"The big difference between a new vehicle and one that's slightly used is, of course, the financial impact. The new-car scent represents a way to cut your vehicle debt costs by about a third. But it can also free up thousands of dollars a year to invest for short-term security and long-term wealth.

"We've all agreed that cars depreciate the minute you drive them off the lot. By how much, do you think?"

"Hmm, ten, maybe twenty percent," I replied.

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"Joe, think about the new truck you want to get. You drive it off the lot and suffer that immediate ten to twenty percent loss. Ouch. Wouldn't you rather let someone else take that hit by driving it for a short while so you could get it for fifteen percent less and save four or five thousand dollars?

"Kim, to put it into the currency you just experienced with your trip, would you let someone else carefully drive 'your' new vehicle for a brief period in exchange for another holiday in the Caribbean for two or three people?"

"If it was still like new," she answered, "of course. But how can I do that?"

"Sometimes you can get that type of saving by buying a vehicle that a dealer used as a demo for a few months. Unfortunately, there aren't that many of them. Of course, you **could also simply choose a slightly cheaper model**. But you're more likely to find what you want and get an even better savings by buying a slightly used vehicle that's one to three years old.

"Personally, I like to look for almost-new vehicles that are less than two years old. The last two I bought were about a year old and had less than 15 K on them. They didn't have a scratch on them, and after a few bucks' worth of my magic potion, they even smelled like new. But each time, I saved over $10,000 off the original purchase price."

"That's a big savings," I acknowledged. "But if buying slightly used saves say $10,000, even if we invest what we didn't spend, is this really going to net us $46,000?"

"As Kim wisely pointed out, we need to focus on the total cost," Bruce explained. "On higher-end vehicles, the savings can be greater, but let's work with a $10,000 savings on the purchase price. In addition to the depreciation savings, how else do we save by buying slightly used?"

"Well, there'd be less tax to pay," Michelle pointed out.

"That's right," Bruce agreed. "And less interest to pay, because the amount borrowed drops by even more than $10,000, after factoring in sales taxes. Add in slightly lower car insurance premiums, and your total savings are

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closer to thirteen or fourteen grand over a five-year period.

"Clearly, even a total savings of $14,000 over five years is a long way from $46,000, so Joe, your question is valid. But remember how we talked about the behavioural approach of pre-committing to direct 'new money' towards your true priorities? Let's assume that one of your top priorities is ensure that you have enough funds to comfortably enjoy more Caribbean vacations after retirement, instead of now.

"Obviously, if you can afford the higher total cost of buying, financing, and insuring a new vehicle, you can afford to buy a slightly used one for significantly less and invest the savings.

"Let's say with taxes and interest, the total savings are $13,500, spread over five years. At five percent returns, investing the savings grows to $31,000 twenty years later.

"I don't want to seem unimpressed, but …" I began.

Bruce anticipated my objection. "But 31 still isn't 46. I know. But if we invested in RRSPs, and …"

"And didn't put dry pasta in the RRSP," Michelle finished. "You'd have more. Much more."

"Your wife is right again, Joe," Bruce grinned. "I think it would be sound financial advice to keep her. She's got a sharp mind for finances."

"Or maybe she's just more experienced cooking pasta," I teased her.

"So if, as Michelle suggests, we Gross Up the after-tax savings into the equivalent RRSP amounts for a middle-tax bracket of about 33 percent, the buy-used savings strategy could add an extra $46,000 to a retirement fund twenty years later.

"In applying the buy-used savings strategy to vehicles, let me be really clear about what I'm suggesting you consider. Let's assume that you can find a vehicle about a year old that meets your needs, like I've done, and you're committed to changing vehicles every five years.

"The buy-new choice means that you drive the vehicle in years one through five. The buy-use-and-invest-the-savings choice means that you drive the vehicle in years

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two through six, and add maybe $46,000 to your retirement fund. Note that four of those years are the same; they overlap. You're simply exchanging the first year – when the depreciation cost is the highest – for the sixth year, when it's very small."

"That make sense," Kim mused. "And I don't get too excited about vehicles, so my choice would be easy. But isn't that the savings possible by buying a slightly used vehicle only *once*?"

"Yes," Bruce confirmed. "If someone stuck with the buy-used savings strategy four times over a twenty-year period, they could add an extra $134,000 to their retirement fund – *per vehicle*."

"And most families have at least two vehicles," Kim reminded us.

"Which means that, for a couple in their mid-40s, **acting on the buy-used savings strategy for twenty years could add more than $250,000 to their retirement fund**."

"Like us," Michelle and I echoed in unison, looking at each other as we digested the impact.

"We've always bought new vehicles, by default," I continued, "without really thinking about it. But some people obviously buy used, and not just those who can't afford to buy new."

"I like Bruce's approach of buying just slightly used," Michelle told me. "That way, you've got most of the warranty to protect you against big repairs, and, as he said, you can't tell the difference after it's off the lot anyway."

"Except for the new car smell, and that secret has been unlocked for us," I noted.

"As I've tried to illustrate with the help of this little bottle, **a buy-used savings strategy is a simple, big-impact solution for people dealing with the challenge of too much debt causing too little savings**.

"My approach with clients is not to tell them that they can become millionaires by living a frugal lifestyle – although they can. As a behavioural coach, I prefer to help clients better understand the impact of making conscious, more informed decisions. Then they're better able to act on what's best aligned with their priorities."

"Now that I think about it," I reflected, "I don't ever remember Lisa and Jim ever talking about buying a new vehicle."

"But they've always driven cars that look as new as ours," Michelle marvelled. "Now we know how, and why."

"And while the concept has the biggest impact with larger purchases like vehicles, buying used and investing the savings applies to anything, including exercise equipment, furniture, boats …"

"Boats?" My ears pricked up. We bought our boat new. Dang. "I guess buying used applies to a lot of things. That settles it. When we get back from the tournament, I'm going to start looking for a slightly used truck, and let someone else take the big depreciation loss in the first year or two. And when I find one, we'll be sure to start a pay-yourself-first plan to invest the amount we saved."

"After grossing up the RRSP contributions to the equivalent, before-tax amount," Michelle expanded. "We don't want any dry pasta in our RRSP!"

"Good for you guys," Bruce beamed. "You two are really starting to think and act like the millionaires next door. You're certainly headed in the right direction to join the Gonnabe Rich group."

"Yikes, there are only a few minutes left in the game, and it's still scoreless," Michelle noticed. "How about we watch the rest to see if we can cheer our team on to victory?"

"Good idea," Kim seconded. "There'll be lots of time during the tournament to pick Bruce's brain. In fact, Bruce, my niece is looking to buy her first house this spring. Can we discuss some ideas that I could share with her about mortgages?"

"Absolutely," Bruce replied graciously. "We can talk about that while we're at dinner with the team. Joe asked about mortgages earlier, too."

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A New Approach to Balancing Debt and Savings

"A clever solution automatically addresses several risks."

By the time the parents and players from the team had all settled into the restaurant at the hotel, it was late. The game, which ended scoreless, was played when most people ate dinner. Stomachs were growling as we pulled up our chairs.

Of course, swamping a small kitchen staff with over thirty hungry mouths to feed could hardly lead to faster service. The two young waitresses and the kitchen staff braced themselves for the tsunami.

The four of us grabbed a table near the other parents, all of us as far away from our boisterous teenagers as possible.

"They won't notice us again until they need their bills paid," Kim joked.

It was going to be a while between our drinks and our meals arriving, but the beer was cold and filling. We settled our plans for between games the next day before Bruce followed up about Kim's niece.

"So, your niece is buying a house?"

"Yes. She and her husband are ready to get a place of their own."

"Buying a house is a very exciting, emotional time, especially the first one," said Bruce.

"It certainly is," Kim agreed. "They're really looking forward to it, and, of course, they're a bit nervous. There's a lot to do and learn. That's why I was wondering if you had any Smart Debt thoughts about mortgages I could pass on to them."

"A mortgage is the largest debt most in most people's lives, and those decisions have a big financial impact. Becoming a homeowner can be great for the family and a good financial decision. But it obviously comes at a huge cost and introduces financial risks that your niece might want to consider."

"What do you mean?"

"Generally, a mortgage falls into the good debt category, because it's reasonable to expect that in the long run, it will increase wealth," he explained. "But **good does not mean that more is better**. As homeowners know, there's always the risk that if for any reason they aren't able to make their mortgage payments, they could lose their house. But even if they never miss a mortgage payment, there are serious financial risks that most people never consider."

"Such as?"

"Let me explain the issue," Bruce began, "and the clever solution recently introduced by Rob Carrick, the personal finance columnist for *The Globe and Mail*.

"What are your niece and her husband's names?"

"Jenna and Dan."

"For everyone's benefit, there's a limit to how much Jenna and Dan can borrow. The lender, of course, wants to make sure the mortgage will be repaid, with interest. At the same time, Jenna and Dan don't want to get a monster mortgage that's so big they're stressed with the payments and can't enjoy life.

"Lenders typically limit borrowing using what's called a Total Debt Service Ratio, or TDSR. It's all of your debt payments – mortgage, vehicle, credit cards, lines of credit, plus your property taxes and heating costs – as a ratio of your gross income. These are the payments that homeowners are basically forced to make.

"The TDSR indicates the portion of your income that is required to 'service' your debts, and generally it's limited to 40 percent. So if Jenna and Dan had a combined, before-tax income of $100,000, lenders will let them borrow until their debt payments total $40,000."

"So what's the risk in that?" I asked. "The remaining 60 percent of their income seems like enough to cover the rest of their expenses."

"First of all," Bruce explained, "they don't get all of the remaining 60 percent. Income taxes take a big chunk of that and they come off first. Then, as we'd like to do any minute now, most people need to eat. Add in the cost of

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transportation, clothes, entertainment and the odd vacation, and there isn't much left.

"But even if Jenna and Dan can meet all of their other expenses, there's still something missing, even in ideal economic conditions."

"What's that?" Kim queried.

"If they're like the four of us at this table, Jenna and Dan have to fund most of their retirement on their own. For most people, the days of working at one company that provides a defined benefit pension that guarantees a retirement income are gone, and are never coming back.

"The fundamental flaw with using 40 percent of income for debt payments is that there's **rarely anything left over to address the need for short-term security and long-term savings**. It's human nature to try to keep up with the Joneses, or exceed them. Combine that with how good marketers are at helping you spend your remaining dollars, and you see why so many people have too much debt and too little savings."

"So what does the guy at *The Globe and Mail* recommend?"

"Joe and Michelle, do you remember how when we met at my office I suggested that about half of financial success was possible by acting on three words?"

"Yeah," I nodded. "Pay yourself first."

"So Rob Carrick's idea is that at mortgage time, banks should talk about the need to manage debts *and* the need to save. Instead of putting the whole 40 percent of your income just toward debt payments, you factor in paying yourself 10 percent right off the top. If Jenna and Dan only get a mortgage that brings their total debt payments to 30 percent of their income, they can easily pay themselves 10 percent first."

"I like that approach," Kim said. "The one thing I've strongly suggested to them was to resist the temptation to get a house – or a mortgage – as big as they can afford. With low interest rates, lenders will tell them they can afford a much bigger house than they need. I have a friend who bought a huge, beautiful house, but almost two years later, half of it didn't have furniture in it. Restricting the total debt ratio to 30 percent would

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definitely help prevent people from becoming house rich and cash-flow poor."

"And they'll be better able to handle the payments at renewal, if interest rates rise," Michelle astutely added.

"That's an important benefit, but there are so **many things to like about automatically balancing debt and savings needs,** it gives me goose bumps!" Bruce continued excitedly. "Yes, starting a pay-yourself-first plan when you're young almost ensures you'll have a decent retirement fund, and it requires saving less than procrastinators who wait. Starting a savings plan also ensures you have an emergency fund to provide short-term security at the same time. Borrowing less not only reduces the debt costs and higher-than-needed expenses of a larger house, it reduces the resulting stress when income fluctuates or rates rise. It leaves enough cash flow to enjoy life. As a bonus, using only 30 percent of income for mortgage payments and bad debt leaves some capacity to consider good debt strategies that could accelerate wealth, like the rich do.

"What's not to love? There's only one thing I can think of that could improve the concept."

Kim was all ears. "What's that?"

"While you were on holidays, the three of us talked about how paying yourself first would be even better if the monthly deposits automatically increased each year, to at least keep up with inflation. Inflating savings with income is a simple upgrade that maintains the original savings commitment, and boosts retirement funds without any sacrifice to our standard of living."

"That makes sense," Kim commented.

"Rob Carrick suggested that instead of the debt-only focus of the TDSR, we should form the foundation of a financial plan based on a Total Debt Service + Savings Ratio, or TDSSR. I suggest that slightly better is to also incorporate the 'pay yourself first *and inflate*' approach that I implement with my clients – in other words a Total Debt Service + Savings *Inflated* Ratio, or TDSSIR.

"If this basic, commonsense idea was implemented by default whenever anyone was considering more debt of any kind, not just a mortgage, it would do a lot of

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financial good and automatically protect against a lot of financial bad. The bottom line is that **if you can't afford to pay yourself first, then you can't afford to take on more debt**.

"And as valuable as this approach is during the good times, it could be a real life saver if financial conditions turn sour, through a longer term drop in income, interest rates spiking, or a big drop in real estate prices.

"As you know, I'm a huge fan of any strategy that moves people towards financial success *automatically*. What I love is how **the TDSSIR approach is an effective behavioural solution to some of the key financial challenges many people struggle with, like too much debt, not enough savings producing little short-term security, and an underfunded retirement**. All of that produces emotional and relationship stress."

"What about where real estate always is very expensive?" asked Kim. "Jenna and Dan work in the Toronto area. They don't expect to get a place close to work, but even most of the surrounding areas are still pretty pricy."

"Good question. With real estate prices so high in some major cities, it's tough for many people to afford a home, even using 40 percent of their income for debt payments.

"First of all, lenders will sometimes let the debt ratio go as high as 44 percent, and that helps in places like Toronto and Vancouver. And the savings commitment doesn't have to start at ten percent. They could start with the Painless Pay-Yourself-First approach of investing five percent of their income and inflating deposits over time. That might leave them with 39 percent for debts.

"But if they can't get a house that lets them save a minimum of five percent, I'd suggest they wait and do whatever allows them to be stress free and doesn't put them at risk of losing their house. They could save up a larger down payment or get a less-than-ideal starter house in a more remote location and upgrade when it's not a stretch to do so.

"Financial success is not defined by being a homeowner. Before 2008, a lot of people in the U.S. bought into the

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American dream of owning their own homes – homes they couldn't afford. We all know how that turned out."

"I really like that approach," Kim said approvingly. "I'm sure that Jenna and Dan will, too. Everything you said makes perfect sense. But maybe instead of me explaining it, I should have them see you so you can get them started on the right foot."

"I'm sure we can arrange that," Bruce replied. "Oh, and I almost forgot, Joe. One of the other benefits of not using all of your debt capacity is that it leaves the door open for another strategy to reduce the cost of bad debts. It's something that's easy to do at mortgage renewal."

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Consolidate and Save, or Don't!

"Two holes to fill are worse than one."

"Perfect!" I responded. "I'm always interested in cutting costs, especially if it's related to debts. We seem to have lots of those."

"It's a pretty basic concept that you've probably heard of. The challenge with it," Bruce warned, "is that, like good debt, it can be a double-edged sword and, in the wrong hands, it can actually make things worse."

"What's the strategy?"

"It's to simply **consolidate all expensive debts at a lower rate**."

"We are indeed familiar with that. A few years ago, we thought about taking out a personal loan to pay off our credit cards," I confessed. "But at the time, we decided not to because we told ourselves that the credit card debt was temporary, and we'd have it paid off quickly. One thing led to another, and the card balances have only gotten bigger.

"But I know you're right. Until we're able to clear our credit cards, we should be paying a lower rate. Paying eight to ten percent instead of almost twenty would cut some of our interest costs in half."

"You should be able to do much better than that, and reduce the interest costs on more than just credit cards," claimed Bruce.

"How?"

"With enough equity in your home, either because you've paid down the mortgage or because property values have risen, you might be able to set up a home equity line of credit, or HELOC. Rates on these lines of credit, secured by your house, are generally the lowest you can get: near prime and the rate you get with a regular mortgage."

"That would save us a lot more than using a personal loan," Michelle noted.

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"And depending on how much of a line of credit you qualify for, you could consolidate all personal debts that charge a higher interest rate: credit cards, unsecured lines of credit, and car loans.

"A friend of mine is a mortgage broker and he does this a lot. He says that **most loan consolidations save clients over a thousand dollars a year in interest**."

"But aren't there expensive fees with a home line of credit?"

"There can be, but often the lender will waive them if you're going to draw from the line of credit. But if you're setting up a new mortgage anyway, and don't use all of your borrowing capacity for mortgage payments, there's room to set up a HELOC at almost no cost to anyone.

"Remember that a mortgage and a home equity line of credit are simply debt secured by the value of the house. The borrowed money can be used for anything, not just buying a home or renovating a kitchen."

"So, does that mean that Jenna and Dan can benefit from a home line of credit?" asked Kim.

"Absolutely," Bruce declared confidently. "If they heed your advice to not get the biggest house they qualify for, they'll have room for a HELOC that can be used to consolidate and lower the interest rate on all their other debts.

"And even if Jenna and Dan are one of the nine young couples in Canada who don't have any debts to consolidate, there are other ways they would benefit by setting up a HELOC when they get their house."

Kim was intrigued. "What are those?"

"Used properly, always having credit available is a good idea for two reasons, even if you don't normally borrow.

"The first reason is that **an unused line of credit can be a source of emergency funds**. Most people know they should have emergency funds set aside to cover at least three months of expenses. I think having a bigger buffer is better, and the line of credit can give you that. An emergency does not include a huge one-day discount on an expensive pair of shoes or a big screen TV, by the way. But a line of credit costs you nothing if you don't use it, and it's there if things get desperate."

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"What's the other reason to have credit available?" I asked.

"To have the capacity to benefit from some of the many Smart Debt investment strategies like the rich do," he replied. "If you've used all your credit for bad debt and **if you don't have the capacity for good debt**, **you're moving backwards financially and won't have the ability to shift out of reverse to accelerate forwards**."

Michelle was focused on a commotion at the kids' table, but I was reflecting on how we could benefit from a low-cost home line of credit. "Michelle, this might save us a lot of money. We could wipe out our credit cards, your car loan, and maybe use it to get my new – I mean slightly used – truck."

"And the boat," added Michelle. "You keep forgetting about the boat."

"It's easy to forget the boat in the winter. They don't work so well when the lakes are frozen."

"So, Bruce, what's the downside of consolidating debts?" my detail-focused spouse asked. "You said that it could actually make things worse."

"As you might be able to guess by now," he began, "the risks with consolidating debts are behavioural. The first risk is a result of the fact that these lines of credit allow you to make interest-only payments, unlike mortgages and car loans. If you're never reducing the balance of the debt, you end up paying interest forever.

"Joe, let's say that instead of financing your next truck at normal car loan rates, you use a HELOC with a lower rate. If you had a vehicle loan, you'd have it paid it off say five years later. The plan is that your vehicle debt is gone before your vehicle is. But if you borrow the same amount on your HELOC and never reduce the principle, you still owe the same amount you borrowed when it's time to get a different truck. Paying a lower interest rate over a longer time can actually increase your total interest cost.

"This issue can be resolved by making sure that fixed-term loans that are moved to the home equity line of credit are still paid off in the same length of time. So if you have a five-year car loan, it gets paid off in that five-

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year period. That way, the only difference is a lower interest rate, which will save you money."

"Are there other issues?" I asked, hoping that my anticipated savings weren't all negated.

"The other behavioural risk is much bigger. Let's say that beyond your mortgage, your only debt was your credit cards, maxed out at $10,000. You set up a $50,000 home equity line of credit and shift your credit card debt to it. You now owe the same amount, but the interest rate is much lower. That, of course, is good.

"But before, the credit card limit was restricting your bad debt to $10,000. Now, you've got $10,000 of new room on your credit cards *and* $40,000 of low-cost debt capacity that you didn't have before. The challenge is that someone with a shovel, who has only ever used it for digging a hole, might be more inclined to dig another hole instead of using it to fill in the first one. In other words, for too many people, the temptation to rack up new credit card debt and use their new line of credit as a well-stocked ATM machine is too great. Obviously, two holes to fill are worse than one.

"That's why I don't recommend debt consolidation to everyone. Despite my best intentions, and theirs, it could actually make someone worse off financially.

"But based on our conversations so far, I'm confident that you and Michelle are committed to moving forwards financially, and won't make that mistake. Consolidating all of your debts with a home line of credit was something I was going to suggest implementing when your mortgage comes up for renewal."

"We'll certainly act on that," I committed. "And with your help setting it up properly, we'll do it right. For someone who's responsible with it, a debt consolidation seems like another 'can't-lose' strategy. I like that kind the best."

"And the financial benefit can still be much more than that," Bruce teased.

I was perplexed. "How? For us, a debt consolidation sounds like a simple, no-cost, guaranteed way to probably save more than a thousand dollars a year. How could it get any better than that?"

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"Do you remember the Debt Swap strategy?" Bruce asked. "It's very similar. For those who have investments that can facilitate the swap, expensive, non-deductible personal debts can be replaced by low-cost, tax-deductible investment debt. It was another way to reduce interest costs in a guaranteed, 'can't-lose' way.

"And do you remember how that strategy could be improved?"

I looked at Michelle, the better half of my memory.

"You explained that for the Debt Swap to really make a difference and move someone closer to their retirement goals, the savings from doing a Debt Swap needed to be invested," Michelle easily recalled.

"Exactly," Bruce confirmed. "Like the Debt Swap and Buy Used strategies, and any other approach that reduces expenses, **a debt consolidation really only increases your wealth if you actually invest the savings**. If you save say a thousand dollars a year and simply spend it on something else, you won't increase your short-term security or retirement lifestyle at all. That's why pre-committing to direct 'new money' towards your highest priorities is part of the Coaching Agreement."

"So before we renew the mortgage, we'll set up a home line of credit to reduce our debt costs *and* then invest the savings," I emphasized. "Look, the food's starting to come out. It's about time. I'm starving."

"Bruce, you've shared some great ideas that could help Jenna and Dan: properly balancing their debt and savings needs, as well as using a home equity line of credit to reduce interest costs *and invest the savings*," Kim winked. "Are there other debt reduction strategies that could help?"

"There are," he assured her. "Why don't we discuss some of them tomorrow? There are other ideas Joe could consider to reduce his mortgage costs, too."

"That sounds great," I agreed. "Right now, my only concern is eating – something I wanted to do two hours ago."

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More Smart Bad Debt Concepts

"Many ways to reduce debt holes"

"The kids played well this morning," I said as Michelle, Kim and I settled beside the hotel's pool with some cool drinks.

"They did," Kim agreed. "It's too bad they lost. It means that even if they win their game tonight, it will take a miracle to make it to the semi-finals tomorrow."

"And I'm sure that spending all of this energy swimming won't help," Michelle remarked as the boys churned the water. "Especially after being up late last night. But either way, the kids will get their second night away with their friends and a pool."

"Look, there's Bruce," Michelle pointed out.

"Excellent." Kim glowed. "I'm going to be seeing Jenna and Dan over the holidays and wanted to know what other ideas he might have about reducing debt costs."

Bruce sauntered over and grabbed a chair beside her.

"Too bad about the game," I said.

"It is. I think they might have won if they'd had a little more rest," Bruce hypothesized. "They looked a little flat. When I coached, that was always one of the challenges with out-of-town tournaments. Especially the morning game against a local team that's fully rested. You can tell the kids to get enough sleep, but in the end, they have to decide if their priority is being up late partying or committing to doing their best on the ice. Still, they're good kids. I made the same choices when I was their age."

"And you're only young once," Kim added. After a bit more chat, she launched into her quest to help her niece. "Bruce, do you mind sharing some of the other ways Jenna and Dan might be more effective with debt?"

"Not at all. We've got time between games while the kids enjoy the pool. Is there anything specific about debt you wanted to focus on?" he asked.

"Not really. I liked the idea about not getting such a big house that they can't afford to save, and also how, if it's

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done right, it would allow them to reduce all debt costs with a home equity line of credit. But with people having debt so much these days, I didn't know if there were other ideas to help steer them in the right direction."

"It's true that a lot of people have too much debt," Bruce concurred. "And surveys consistently show that one of Canadians' top financial priorities is reducing their debt levels. But, unfortunately, my experience is that this is example of where the walk doesn't match the talk.

"I think that the core challenge is similar to the choice the kids had: stay up late partying or get enough sleep to do their best the next day. When 'more fun now' competes with 'maybe more successful later,' most people go for the immediate pleasure, even if there's eventually a price to be paid.

"And when it comes to finances, the combination of low interest rates and easy access to credit makes it seem almost painless to try to have it all today, at least temporarily, and ignore how it impacts them later."

"But that doesn't work in the long run," Michelle sighed.

"Or even in the short term," Kim suggested, "if interest rates go up, or worse, someone loses their job and can't keep up with the debt payments. So what's the solution?"

"There are some simple things that can be done to reduce debt costs," Bruce answered. "Let's look at those before further addressing the core issue.

"The first guideline is to **never owe longer than you own**. That is why vehicles should be paid off in four or five years at the most, instead of the current trend towards seven. Obviously, the shorter the term of the loan, the lower the total interest cost.

"In the same way **with mortgages, amortizing over 20 or even 15 years instead of 25 will save a ton of interest** and only increase your payments slightly."

"Don't weekly or bi-weekly payments do the same thing?" Kim asked.

"Essentially," Bruce replied. "So it really doesn't matter how frequently you make your payments. What matters is how long it takes to pay back what you borrowed. With mortgages, I suggest that my clients match the payment

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cycle with when they get paid, and set the amortization period to five years less than they think they can handle. Like starting a pay-yourself-first plan, once it's started, you hardly notice the difference. But that one decision automatically increases your wealth in the long run."

Kim had become quite an eager student. "Are there other simple ways people could be smarter with their debt?"

"Lines of credit are a big issue with some," he answered. "Whether it's a home equity line of credit or the more expensive unsecured type, too many people are digging these debt holes without any plan to fill them in. If Jenna and Dan consolidate other debts or use a line of credit later for a renovation, they should **make sure all personal debts are on a reasonable repayment schedule to become debt free**, even if it's on a line of credit at a low rate. If a vacation is put on credit, it makes sense to pay it off before you book the next one.

"Making the minimum payment to cover the interest expense might be affordable, but every dollar of interest that is paid today is two or three dollars that won't be there to let you enjoy a stress-free retirement later. These days, over half of retirees have debt, and about 40 percent of them carry a credit card balance."

"Wow! That's a lot," Michelle fretted. "Times certainly have changed. Our grandparents never would have dreamed of retiring in debt."

"You're right," Bruce concurred. "The current generation definitely has different attitudes about debt and, ironically, they're often indifferent about the kind of debt that's guaranteed to decrease their wealth."

"Bruce, what thoughts do you have about being better with credit cards?" I asked. "I don't know Jenna and Dan, but if they understood how expensive library late fees were and still kept running up their cards, what would you suggest to them?"

"If they were truly committed to moving forwards financially and recognized that they were vulnerable to how easy it is to pay with plastic, they could try something that worked well for one of my clients. Let's call her Sue.

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"Sue had a dog. And with certain pets, you can keep their food bowl full and they'll only eat what they need to stay healthy. But Sue's dog would eat whatever was available, no matter how much she fed it. It was fine when it was a puppy. But when it started slowing down, having access to too much food caused it to become obese and unhealthy. The solution, of course, was to limit how much food the dog had access to."

"So you're saying that Sue's solution to controlling her credit card spending was to limit how much credit she had access too?" I guessed.

"Essentially, yes. Sue accepted that her current approach wasn't working. So she cancelled her line of credit and consolidated all of her debts into a loan that would be paid off in four years. Then she cancelled all of her cards except one and reduced its limit to $1,000. This allowed her to still make purchases that required a credit card. But for her, **the self-imposed smaller credit limit worked** and prevented her from consuming an unhealthy amount of debt."

"That's clever," I acknowledged, "for someone who accepts they sometimes buy more than they can afford."

"What are your thoughts about borrowing money from relatives?" Kim wondered.

"I know that it happens. But a safe rule of thumb – for your finances and your relationships – is to not borrow money from friends or relatives," Bruce advised. "But if you do, be sure to borrow from someone who's a pessimist."

"Why?"

"Because they won't expect it back!"

We chuckled at the financial coach's wit.

"Two final points about credit cards," Bruce offered, contentedly. "First, don't get the 'balance protection'. You might pay one percent a month, or 12 percent a year, even if you pay your balance off every month. It won't pay off your balance if you lost your job, as you might expect. It will only make your minimum payments until you're back on your feet. That's very expensive insurance."

"And your other advice about other credit cards?"

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"Aside from keeping them paid off to earn about twenty percent after-tax returns guaranteed, I suggest that my clients **use only one credit card that has a good loyalty program**. You might also have a second card that you almost never use, just as a backup in case something happens to your primary card.

"I prefer 'cash back' cards, which are simpler to understand and compare. That way, the bank is actually paying you a little instead of you paying them a lot. But don't try to spend your way to a free trip," he cautioned, "or it would actually be very expensive!"

"Bruce, when we started, you said there were simple things that could reduce debt, and 'the core issue,'" Kim recalled. "What did you mean by that?"

"I think the core issue that individuals need to decide on is what their real priorities are – what's most important to them.

"If your life is truly happiest in all dimensions by living the bumper sticker motto that 'He who dies with the most toys wins,' then credit can be your friend and you simply need to time your death properly," he smirked.

"To use the vehicle analogy, each of us has a different-sized engine, some earning more than others. But much more important than how powerful your vehicle is, is the direction you aim it. If it's aimed forwards, towards increasing security and wealth in the long term, you're almost certain to get there. But if you earn lots of money and spend 105 percent of it racking up debt, you'll never have financial independence. And you'll probably be less happy than someone who earns half as much and lives within their means."

"So **people need to decide if they want to Appear Rich or they're truly committed to Gonnabe Rich**," I surmised.

"That's the key decision," the financial coach professed. "Most people will make enough money in their lifetimes to do either. We can **choose to be a conscious consumer, borrower, and saver**, and **direct your resources towards *your* agenda**. Retailers, of course, do not want you to consciously weigh up if your purchases are aligned with your real priorities. They're only focused on achieving their quarterly sales targets.

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"Forgive me for quoting Shakespeare, but perhaps he said it best with, '**To thine own self be true**.' If people were really clear on their personal currencies, and which ones were truly most important to them, the hard part of navigating financial decisions would be over. They'd know which direction they wanted to go, and would get whatever help they needed to get there. They would know whether they want to use debt as a shovel to create a hole or to create a pile of wealth."

"I think that's something that Jenna and Dan would be wise to give some thought to," Kim noted. "Thanks. Look, I think the kids have finally had enough time in the pool. Some are even heading back to their rooms. Maybe they need a rest before the next game."

"I don't know about them," Michelle announced, standing and stretching. "But I know at least one adult who does."

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