Globe eBooks

The Ultimate Guide to Gen Y Investing

The Globe's **Rob Carrick** explains how millennials can and should invest, save, and plan for the future

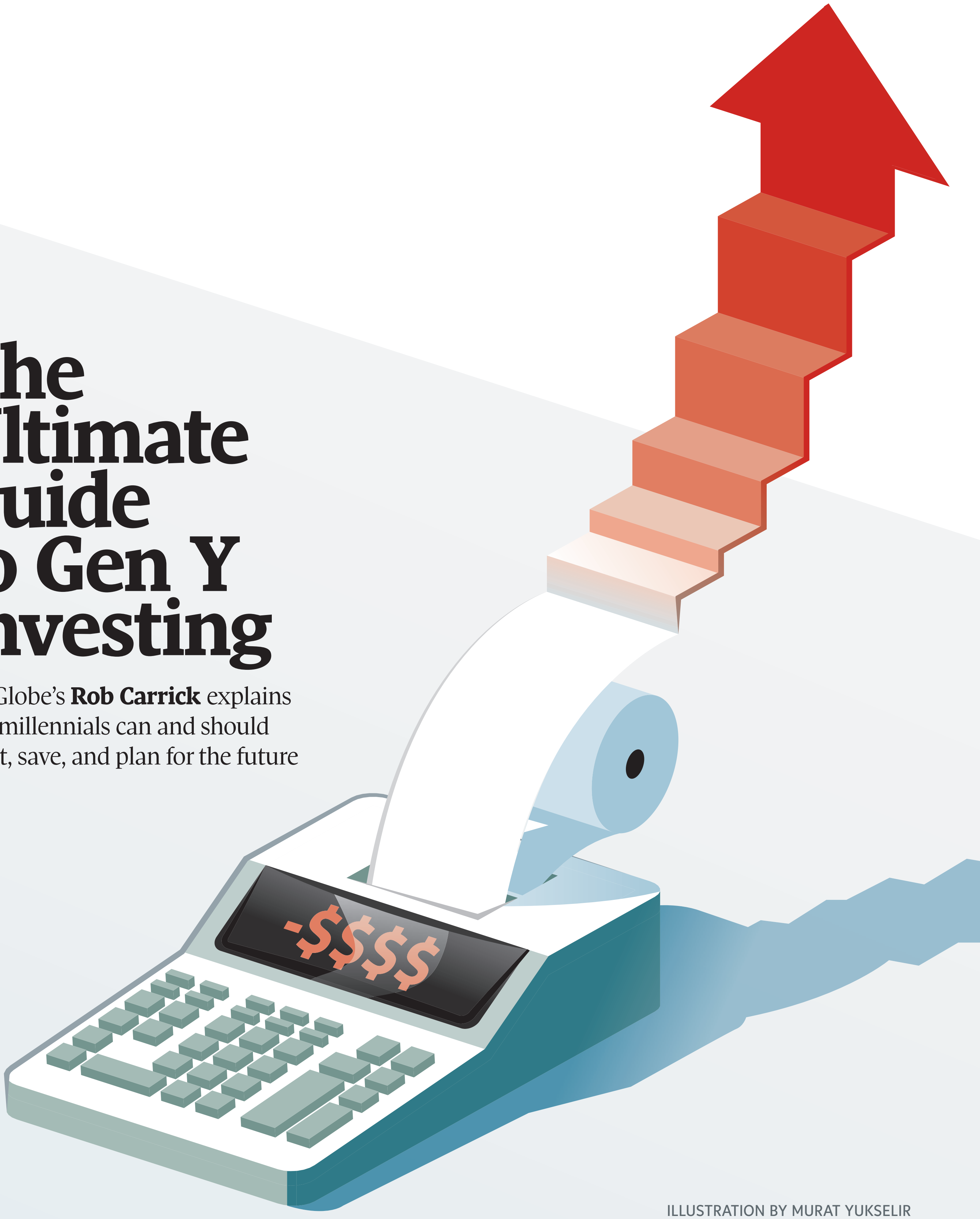

ILLUSTRATION BY MURAT YUKSELIR

Table of Contents

CHAPTER 1

Gen Y's lack of financial independence is striking

BY ROB CARRICK

Gen Y's lack of financial independence is striking

The disconnect between millennials' ambitions and the financial reality is striking, study finds

May 6, 2014
By Rob Carrick

The young adults of Generation Y want what their parents have – the full package of careers, cars, houses and kids.

Yet many of these young people lack full-time jobs in their field and a large number of them are being supported to some extent by their parents, even into their 30s. Plenty of Gen Y members are doing fine in today's economy, but the overall lack of financial independence is striking.

The disconnect between Gen Y's ambitions and the financial reality is documented in the Yconic/Abacus Data Survey of Canadian Millennials, which was conducted for The Globe and Mail earlier this year and involved 1,538 young people aged 15 to 33. The most dramatic findings concern Gen Y members' ability to establish their financial independence from parents. Survey participants expected to reach this milestone by 27 on average, but 43 per cent of the 30- to 33-year-olds said they had not yet done so.

Parents, you're far from alone if you help your adult kids financially. In the survey, almost one in five people in the 30 to 33 group lived with mom and dad, as did 29 per cent of those in the 25 to 29 range. Seventeen per cent of 30- to 33-year-olds said they were getting help from their parents to pay their bills and 28 per cent of youth aged 25 to 29 said this.

A fair bit of analysis has been done on whether today's young adults have more trouble establishing themselves after graduation than their parents. The Globe and Mail's Who Had It Worse Time Machine suggests they do, while a recent BMO Economics study said they are better off in some ways. The Yconic/Abacus survey gives us a different take by delving into the experience and attitudes of young people rather than economic indicators.

Let's dispense with some stereotypes that are sometimes used as a rationale in blaming Gen Y for its own problems. Far from being self-absorbed slackers, this is a group with traditional middle-class values. More or less, nine in 10 participants in the poll indicated a desire to buy homes and cars, or had already bought them. Only 9 per cent were unequivocal in not wanting to have kids.

Millennials don't play the blame game, either. Two-thirds of those in the poll said they were either satisfied or very satisfied with their lives, and a similar proportion believes it will have a better or similar quality of life than their parents. There's little variation in this thinking between the teenaged younger poll participants and those in their early 30s.

Student debt gets a lot of attention as an issue facing young adults and the Yconic/Abacus survey validates this to some extent. Only 23 per cent of survey participants aged 25 to 33 had zero non-mortgage debt, and a third of those aged 30 to 33 owed more than $20,000.

Landing a career-building, full-time job is another challenge that is well documented in the survey. One-third of people in the 30 to 33 group and 73 per cent of 25- to 29-year-olds had not found a full-time job in their field. Among those aged 25 to 29, just over one-third thought they'd need as many as five years to find full-time work in their field, and 7 per cent weren't sure when this would happen.

Even those who are working struggle. Among 30- to 33-year-olds, 52 per cent say they can afford to pay their bills but have trouble saving money, and 22 per cent say they're either barely making ends meet or living paycheque to paycheque.

By no means is Gen Y a financial basket case. Sixty per cent of 30- to 33-year-olds said they have bought a house or planned to do so in the year ahead, and two-thirds have bought a car. But the number relying on their parents is too high for complacency. We need to dig further into this issue.

Gen Y, at least you have time on your side. Today's 20- and 30-year-olds should expect to live 90-plus years and work until 65 or 70. You can still meet your financial goals – just later than your parents did.

I'll discuss what Gen Y's financial issues mean to parents in a column later this week. Beyond supporting their kids emotionally and financially, parents could certainly get more aggressive in asking educators, politicians and the business community what they're doing to help young adults succeed.

Like their parents, these young people want life's full package. If they can't get it, there's something wrong.

CHAPTER 2

Gen Y: Learn to live with stock market risk

BY ROB CARRICK

Gen Y: Learn to live with stock market risk

In the University of Western Ontario employee pension plan, the youngest members are among the most safety-conscious as investors

May 30, 2014
By Rob Carrick

In the University of Western Ontario employee pension plan, the youngest members are among the most safety-conscious as investors. The younger you are, the better positioned you are to live with stock market risk. And yet, Western employees under 25 have an average 58.8 per cent of their portfolio exposed to stocks in their defined contribution pensions, while those aged 25 to 30 average 60.4 per cent. Those numbers sound about right for someone who is between 50 and 60, not a young adult with 40-odd years to go until retirement. "We feel they're too low," said Martin Belanger, director of investments at Western.

One of the most counter-intuitive investing stories of recent years is the marked preference of young adult investors to invest conservatively. A 20– or early 30-something might have 35 to 40 years of investing until retirement, a perfect time frame for benefiting from the stock market's high long-term rates of return.

Young investors can go as high as 90 or even 100 per cent exposure to stocks. Or, they can put an emphasis on safety and split their portfolios 50-50 between stocks and bonds. What's important is to understand the trade-offs of both approaches and make an informed choice between them. Invest with your brain, not your gut.

I've been writing all week about the problems that the young adults of Generation Y are having in establishing their financial independence from their parents. Members of Gen Y find it tough to save for retirement, and many are doubtful that they'll ever be able to retire. These challenges put all the more onus on young adults to get their investment plan right.

Fear of stocks is a big issue for young investors, and not just those in Canada. A U.S. poll done in April found that just 27 per cent of 18– to 29-year-olds reported owning stocks either directly or through funds, down from 33 per cent in April, 2008. Mr. Belanger said it's possible the 2008-09 stock market crash has traumatized those who are new to investing. "Young people may have been scared more than those who have been investing for a longer time."

Western's pension plan offers a choice of 15 low-cost pooled funds, including stock and bond funds and balanced funds that mix both in varying degrees. The default investment for members who do not pick their own mix is a balanced fund with 70 per cent of its holdings in stocks.

The youngest members of the plan have considerably less exposure to stocks than this, which tells us they have taken steps to reduce their stock market exposure. Mr. Belanger asked a university pension and benefits consultant about the mindset of young adult investors, and was told that they're shying away from stocks because they fear losses and prefer to wait and get more comfortable with them.

"The problem with doing that is that they tend to wait for the stock market to have a good run before they decide to invest, which means buying at the top and potentially suffering a loss soon after the investment is made," Mr. Belanger said in an e-mail.

Members of the Western pension plan in the 40-to-45 age range have the highest stock market weighting, on average, at 66.1 per cent. At the fund's annual meeting earlier this month (full disclosure: I was paid to give a talk on retirement trends at this event), Mr. Belanger suggested that a 90-per-cent weighting in stocks was reasonable for young investors.

He wasn't recommending this portfolio mix, just pointing out that so-called target funds catering to investors retiring in 40 years have an average of a little more than 90 per cent of their assets in stocks. Target funds gradually ratchet down your stock market exposure as you approach retirement in a particular year in the near, medium or long term.

If you're not in stocks, then your choices as a young investor are basically bonds and cash. Neither are likely to fall as much as stocks, nor offer returns equal to stocks over a period of decades.

"Over a 10-year horizon, equities typically do better than bonds," Mr. Belanger said. "The odds that an equity investment will generate less than bonds over 40 years? I don't see that happening."

Justin Bender, a portfolio manager with PWL Capital, suggests young investors go with a mix of 25 per cent bonds and 75 per cent stocks, the same blend he uses (he's 32). He's not militant about this asset mix, though. Far more important than the mix of stocks and bonds for young investors is the commitment to regularly put money aside.

"If they're not saving or accumulating anything, their asset allocation decision probably isn't going to have a huge impact," Mr. Bender said. He believes asset mix starts to have a bigger impact when a portfolio reaches $50,000 to $100,000 in value.

Mr. Bender does have a couple of cautionary notes for conservative investors, though. One is that the lower returns from owning less risky investments means a person will likely have to save more over a lifetime. If you invest $1,000 annually for 10 years and get a return of 6 per cent annually after fees, you'll end up with $13,792. To end up with roughly that much at a 3-per-cent annual rate of return, you'd need to invest 17 per cent more each year, or $1,170.

Also, conservative investors must be especially careful about controlling fees. With yields on bonds and guaranteed investment certificates topping out in the 2-per-cent range for five years or less, fees will bite deeply into returns.

If the 2008-09 crash is your rationale for a fear of stocks, then you're misreading history. For long-term investors, the lesson of that event is that the market can come back even from historically awful setbacks. As of April 30, the 10-year annualized return from the S&P/TSX Composite Total Return Index was 8.8 per cent (that's share price changes plus dividends). Lodged somewhere near the middle of that period was the 33-per-cent decline in 2008.

Young investors should tap into this power to generate long-term gains to whatever extent they can. Invest aggressively, or be prepared to save aggressively.

CHAPTER 3

The ultimate investing guide for Gen Y

Part I

BY ROB CARRICK

The ultimate investing guide for Gen Y

The Globe and Mail Gen Y Investing Guide will help you dodge fees and commissions

Nov. 22, 2013
By Rob Carrick

The more money you have, the more attention you get from the investing industry.

Young investors are pretty much invisible to Bay Street, then. Bank branches will sell mutual funds to anyone with a pulse and $500 to spend, and investment advisers will often take their clients' kids on as a courtesy. But no one is reaching out to people who are starting out in the work force and looking for ways to start investing.

That's where the Globe and Mail Gen Y Investing Guide comes in. It's designed to help 20- and 30-somethings get situated as investors without being mauled by fees and commissions. Parents, pass this guide along to your kids.

1. Especially for students and recent grads

Virtual Brokers, which ranked first in the 15th annual edition of The Globe and Mail's online brokerage ranking (published this week), has created what could very well be the only investment plan aimed at young investors. It's called the Kick Start Investment Program and it allows clients to set up an automated purchase plan where money goes into exchange-traded funds or individual stocks in the S&P/TSX 60 and S&P 500 indexes with zero commission costs.

The minimum monthly contribution is $100 and you can invest in as many as five stocks or ETFs. Contributions are drawn from a linked bank account and then used to buy as many full shares as possible, with any remaining money left to sit in your account as cash. Kick Start has zero cost for students and people who have graduated within the past two years. Everyone else pays a $50 annual fee, but no commissions when buying shares (normal sell commissions apply).

2. When you're starting from nothing and have only small change to invest

Check out the ING Streetwise Balanced Growth Portfolio, which is sold by the online bank ING Direct (changing its name to Tangerine in the new year). You can invest any amount in this ready-made portfolio, which is based on index funds tracking Canadian bonds and cash (about 24 per cent) and Canadian, U.S. and international stocks (76 per cent). That's an appropriately aggressive mix that will reward you well in up markets for stocks and offer a modest cushion in down markets.

The fee associated with owning this fund is 1.07 per cent, which is acceptable for a turnkey portfolio that allows you to contribute any amount and any time without paying any commissions.

With as little as $100 to start, you can buy the e-series of index funds from Toronto-Dominion Bank. Set up an account at TD's online brokerage firm, TD Direct Investing, and use it to build a portfolio based on the funds in the e-series lineup. There's no fee to buy or sell and the cost of owning these funds is very close to exchange-traded funds, which we'll cover shortly. Note: If you're opening a registered retirement savings plan account with TDDI to buy an e-series fund, tell them you want a basic RRSP with a low annual administration fee of $25 that applies to accounts of under $25,000.

3. If you want ETFs

Exchange-traded funds are low-cost index funds that trade like a stock, which means you'll pay commissions of up to $29 to buy and sell them at an online broker. However, a few firms now waive some or all ETF commissions. Qtrade

Investor, Scotia iTrade and Virtual Brokers have a limited list of ETFs that can be traded at no cost. Questrade and VB let you buy ETFs at no cost, but charge you a sell commission (VB has two ETF offers). Zero-cost ETFs are perfect for people who want to make monthly or quarterly investments.

4. If you want individual stocks

When starting with a small amount of money, you're best served by owning a diversified ETF or mutual fund. But for those infatuated with stock picking, you'll find the lowest commissions at Virtual Brokers, where the cost is basically a penny per share with a $9.99 cap, and Questrade, where trades start at $4.95. Avoid the big bank firms – they charge as much as $29 to clients with less than $50,000 in their accounts.

5. Be smart with registered account fees

Young investors often ask whether it's better to contribute to a registered retirement savings plan or a tax-free savings account. TFSAs are more versatile as an all-purpose investing vehicle, and young adults may find they have certain tax advantages over RRSPs (more on that online). There's also a fee-related reason to use TFSAs if you're the customer of many of the big online brokers.

The practice at many online firms is to offer TFSAs without annual administration fees, while charging up to $100 for RRSPs with assets of less than $15,000 to $25,000. Another advantage with TFSAs is that they may not be subject to a broker's minimum size requirements for new accounts. At BMO InvestorLine, for example, the $5,000 minimum is waived for TFSAs.

6. If you want to practise your skills as an investor"

Online brokers are increasingly offering practice accounts, which look like the real thing and use virtual money. They're a great way to familiarize yourself with online trading of ETFs and stocks, and test your investing acumen before committing real money.

Most practice accounts are available to clients of a firm only. Suggestion: Open an account and then explore the practice accounts before doing any actual investing. Or, check out the new stock trading simulator created by TMX Group Inc., the company that owns the Toronto and Montreal Stock Exchanges. It's set up very much like the trading screens at online brokerage firms and it's available to anyone.

CHAPTER 4

The ultimate investing guide for Gen Y

Part II

BY ROB CARRICK

Ultimate investor guide for Gen Y: Part 2

The best investment products for beginners are cheap to buy and own, easy to manage and effective in producing competitive returns. Here are four ways to invest as a beginner

May 25, 2014
By Rob Carrick

The best investment products for beginners are cheap to buy and own, easy to manage and effective in producing competitive returns.

In Part 2 of my Ultimate Investor Guide for Generation Y, we look in detail at some specific investments that deliver on all three points (read Part One online here). Our target investor has $5,000 to start a portfolio in a tax-free savings account. TFSAs are an ideal vehicle for rookie investors for three key reasons.

Taxes are a non-issue: Money can be withdrawn tax-free at any time.

They typically have no annual account administration fees. Investment firms hate small accounts for the most part, and they have demonstrated it by charging administration fees on them; TFSAs are a notable exception.

They're versatile: You can put pretty much any type of investment in a TFSA – mutual funds, exchange-traded funds, stocks, bonds and guaranteed investment certificates.

A quick word about portfolio-building: Many of the portfolios we'll look at here use a modestly aggressive mix of 25 per cent in bonds and 25 per cent in each of Canadian, U.S. and international stocks. If I were in my mid-20s, I'd probably go 15 per cent bonds and 85 per cent stocks, but Gen Y investors tend to be on the conservative side (read more on this in an earlier column).

Now, let's look at four ways to invest as a beginner – simple, medium effort and two advanced options.

Simple – Use balanced funds.

Who sells them: Balanced funds are sold everywhere, but two of the best for beginners come from the online bank Tangerine Bank, formerly ING Direct, and the Calgary-based investment company Mawer.

What you're buying: Tangerine's balanced growth portfolio is built with index mutual funds tracking major stock and bond benchmarks. The fund is divided evenly into Canadian bonds, Canadian stocks, U.S. stocks and international stocks (outside North America). Mawer Balanced holds other Mawer funds in a blend of roughly 6 per cent cash, 31 per cent bonds and 63 per cent stocks from Canada and around the world (including large and small companies).

How to buy: Online through Tangerine. For Mawer funds, choose an online broker (my latest broker ranking is here) and confirm that you can buy Mawer products with no commissions.

Pluses: You put money in and the fund managers maintain a diversified portfolio for you. Investing gets no simpler than this. Also, there shouldn't be any cost to buy or sell either of these funds.

Minuses: The cost of owning these funds, as measured by the management expense ratio, is more expensive than the other options here, though much cheaper than most conventional mutual funds.

Takeaway: A fair price for investments that do all the work for you.

More info: Tangerine funds for TFSA, Mawer Balanced

Medium effort – Use low-cost index funds

Who sells them: All the big banks sell mutual funds that track major stock and bond indexes, but the cheapest by far are in Toronto-Dominion Bank’s e-Series of index funds.

How to buy: The easiest way is to open an account with TD Direct Investing and then buy these four e-Series funds online.

Pluses: Very close to the cheapness of owning ETFs, and no cost to buy or sell.

Minuses: You have to rebalance your portfolio once or twice a year to ensure your mix of investments remains where you want it to be.

Takeaway: A very good choice requiring only medium effort.

Advanced I – Exchange-traded funds

What you’re buying: ETFs, which in their most effective form are very low-cost funds that track major stock and bond indexes and trade like stocks. That means you need to have an online brokerage account to use them.

How to buy: Go to your broker’s online equity order screen (equities are financial-speak for stocks), add the stock symbol for your ETF and select the number of shares you want to buy. You can buy any number you want.

Pluses: The cheapest way to get the diversification benefit of investing through funds rather than picking individual stocks.

Minuses: The big one is brokerage stock-trading commissions, which can range from $9 to $29 for small accounts, depending on which firm you use. That’s expensive if you add to your investments on a monthly basis. The independent brokers Questrade and Virtual Brokers (not affiliated with a big bank or credit unions) offer no-cost ETF purchases. You pay normal rates to sell, but these firms have very low commissions. One more minus with ETFs is an overwhelming selection, numbering close to 400 funds. The four ETFs shown here can certainly be used to build a complete portfolio, but there are many alternatives.

Takeaway: The less you pay for your investments, the higher your potential returns.

More info: Questrade on ETFs; VB on ETFs

Advanced II – ETFs managed for you at low cost

Who does this: ShareOwner, an online brokerage firm catering to long-term, buy-and-hold investors.

What you're buying: The same ETF portfolio as above, but this time you're investing through ShareOwner.

How to buy: ShareOwner lets you pick the ETFs you want, and then set up a monthly contribution plan. In addition to the fees on your ETFs, ShareOwner applies a charge equal to 0.5 per cent of your account balance annually to buy your funds and manage your portfolio (a flat $40 per month is charged for accounts over $100,000). ShareOwner will divide your contributions between the funds you choose, in the proportion that you specify. They'll even do fractional shares to ensure your money is invested where you want it.

Pluses: 47 core ETFs are offered for portfolio building, or you can use one of five model portfolios. Once you've chosen your portfolio, they do all the work for you.

Minuses: You're giving up 0.5 of a percentage point in returns to have someone keep your account running smoothly.

Takeaway: Not a bad way for a beginner to build an ETF portfolio.

CHAPTER 5

He’s 26 with $32,000 in savings. Here’s how he did it

BY ROB CARRICK

He's 26 with $32,000 in savings. Here's how he did it

Rob Nettleton's strategies include eating in, paying monthly bills gradually rather than all at once, and automating his monthly investing deposits

April 18, 2014
By Rob Carrick

Meet a guy who's addicted to saving.

He's a 26-year-old Ottawa resident by the name of Rob Nettleton and he's an example not just to his fellow members of Generation Y, but to anyone who wants to save money but can't figure out how. Even if you're not as disciplined as he is, you can still learn from the story of how he graduated with $18,000 in debt and now has savings of roughly $32,000.

"Some people say I'm older than my age when it comes to saving," Mr. Nettleton, a writer at a communications firm, said in an interview. "It's always been something that has been very important to me because I come from a lower-income family. I watched my parents struggle with debt and I told myself it was something I would never allow myself to do."

Let's look at Mr. Nettleton's rules for successful saving. First, he avoids waiting until the end of the month to pay all his bills. "A lot of people that I know struggle with the concept of 'Where did my money go?' when bill-paying time comes around," he said.

His strategy is to pay his bills gradually, rather than all at once. He puts half the money needed to cover monthly bills such as rent, cellphone and Internet into a savings account after receiving his first paycheque of the month. He then uses his second monthly paycheque to cover the remaining amount of his bills.

A second rule is to limit the money he spends on eating at restaurants and drinking in bars. Gen Y is known to have a taste for this kind of life-style, but Mr. Nettleton avoids it as much as possible. He brings his lunch to work every day except Friday, when he treats himself to a sandwich at a coffee shop near his office.

When he socializes at a restaurant or bar, he tries to eat beforehand and order just a single drink. “Nine times out of 10, I’ll have people over to my place or I’ll go over to their place. If we’re drinking, I’ll pick up a couple of tallboys at the liquor store – that’s $9, whereas I’m paying $7 or $8 for a glass of something at a restaurant.”

Another rule is to make saving and investing automatic. With the help of a financial planner, he set up a program that currently directs $200 into his tax-free savings account every month, and another $200 into his registered retirement savings plan. Still another $200 or so goes into his emergency fund. “The timing of that money coming out is very strategic,” he said. “If you get it taken out the day you get paid, you’ll never know it’s gone.”

One more rule is to live modestly. He shares an apartment in downtown Ottawa with a roommate and spends little on technology and gadgets. Mr. Nettleton has limited himself to a relatively recent iPhone 5 and a MacBook that’s four or five years old.

Some frugal people come across as tediously self-righteous, but not Mr. Nettleton. “It’s not something I’m smug about at all,” he said of his savings regimen. “It’s become somewhat of an addiction for me.” Recognizing this, he pushed himself to spend money this summer on a trip to Norway, a long-time dream. He economized by using Airbnb to rent a room in accommodations where he was able to use a kitchen and eat his meals in.

One other exception to his otherwise uncompromising saving routine is his daily visit to a coffee shop. “I can’t live in a world where I can’t have my daily coffee,” he jokes. “Giving up coffee would be giving up a piece of happiness that I really cherish each day.”

At some point, Mr. Nettleton would like to buy a house. He figures that his TFSA will be the basis of his down payment and wants to leave his RRSP for retirement rather than dipping into it using the Home Buyers’ Plan.

Longer term, he wants to retire and live off the income from his investments. He says he’s discussed this with his financial planner and the goal looks reachable if he keeps saving aggressively as he is now for the next 40 or so years.

Owning a house and having kids may complicate things, but this savings addict is off to a great start.

Meet Rob Nettleton

Age: 26.

Parents: Dad a retired factory worker, mom works as a cook in a diner.

Education: Journalism degree from Carleton and a diploma in marketing and professional writing from Algonquin College.

Job: Writer for an Ottawa communications firm.

Previous work history: Multiple part-time jobs through college and university, including student union president and retail positions in furniture, grocery and bookstores.

Home: Shares an apartment in downtown Ottawa.

Savings strategy: Put away about 20 per cent of each paycheque.

Total savings: Approximately $32,000.

Debt: Zero

CHAPTER 6

Young urban condo buyers: Why not rent instead?

BY ROB CARRICK

Young urban condo buyers: Why not rent instead?

Renting is the better choice if you're not planning to stay for more than a few years. Save your money for a house later on

June 9, 2104
By Rob Carrick

Question for all the young adults buying condos these days: What are you thinking?

Rent that little box in the sky and save your money for a house later on. Don't buy something you're going to grow out of in a few years.

"When you run the numbers, renting is probably a bit cheaper," said David Fleming, a Realtor with Bosley Real Estate and writer of the Toronto Realty Blog. "But [young adults] think the market is going to go up, they want to pay down principal, they want pride of ownership. I've probably sold seven or eight condos this year to kids under 25."

Mr. Fleming said some young buyers get help from parents to buy their condos, and then manage the monthly carrying costs of the mortgage and condo fees by finding a roommate to pay rent. Yet because young buyers tend to stay in their condos for only a short while, renting is still the better choice.

"I would say buyers in their 20s probably won't live in that condo for five years," Mr. Fleming said. "They're going to either outgrow it, or find a mate and want a bigger, better or different place."

Even if you meet someone and live together in your condo, you'll probably want to move when you have kids. Mr. Fleming said an increasing number of couples are starting families in condos, but a house is still seen by most as the best place to do this.

Moving from a condo you own to a house will cost you a lot. If you used a real estate agent to sell the place, you might pay a $15,000 commission plus HST to sell a $300,000 condo. "It's expensive to move," Mr. Fleming said. "Hopefully you purchased that condo for $250,000."

Condo prices are rising in some cities, so you might have that going for you if you buy. Data for May show the average condo price rose 6.7 per cent in Edmonton to $251,688. Calgary condos rose 1.9 per cent on average to $315,953, and downtown Toronto condos rose 7.6 per cent to $401,809. "I was a bit of a condo bear and now I've basically thrown my hands up," Mr. Fleming said of the Toronto market.

But, as he is quick to point out, not all condos are equally good investments. Mr. Fleming said there are some poorly built condos in downtown Toronto that won't hold their value as well as higher quality buildings. His description of one particular development is hilarious: "There's no soundproofing, people are partying and puking in the lobby, there's honking, there's no infrastructure nearby – where do I get a coffee, where do my dry cleaning?"

Rent a downtown condo, don't buy one. You still get to live the urban lifestyle and reduce commuting times. You'll also have a decent selection of rentals to choose from. Mr. Fleming said Toronto's overall rental market is tight, but one bedroom condos available to rent are plentiful. Two-bedroom, two-bath condos? Not so much.

A quick run through Kijiji found downtown Toronto one-bedroom condos for rent at $1,500 to $1,600 range. If you bought a similar condo for $300,000, then your mortgage payments would be $1,391 per month, assuming a 3-per-cent mortgage rate and a 5-per-cent down payment of $15,000.

Renting becomes a cheaper option when you add condo fees to that mortgage payment at about $400 a month and property taxes at $180 a month. Factor in the kind of home improvements that owners tend to make and you've got an even bigger rent-buy spread in costs.

There's a theory that buying a small condo is like training camp for owning a home – you learn about mortgages, interest rates, budgeting and maintenance costs. Here's a better way to prepare to own a home: Rent a condo and park all the money you're saving as a renter in a nice, safe high-interest savings account held in a tax-free savings account. In the example just above, you'd save about $370 a month by renting. In a high interest account paying 1.25 per cent, you would end up with $22,894 after five years. That's two-thirds of the way to a 5-per-cent down payment on a $600,000 Toronto house.

What does Mr. Fleming, the real estate agent, think about renting a condo? "As a Realtor, I'm supposed to sell people real estate, not rentals. But I don't think it's a bad move."

CHAPTER 7

TFSAs vs. RRSPs: The Gen Y guide

BY ROB CARRICK

TFSAs vs. RRSPs: The Gen Y guide

There's a lot to love about TFSAs for a young investor

Feb. 14, 2014
By Rob Carrick

There's a lot to love about TFSAs for a young investor.

So much of investing and saving involves rules, conditions and a natural bias toward big money. Tax-free savings accounts are simple to use and friendly to people who are just starting out as savers and investors.

TFSAs are a great place to save for future expenses, such as a car, wedding or house down payment, and they're ideal for building a portfolio of stocks, exchange-traded funds or mutual funds. But if your specific goal is to save for retirement, TFSAs have to be carefully compared with registered retirement savings plans.

The Globe and Mail's Gen Y Guide to TFSAs versus RRSPs is designed help in this analysis. You'll find four ways to consider these two approaches to retirement saving.

Human behaviour

Bruce Sellery, author of The Moolala Guide to Rockin' Your RRSP, is adamant that RRSPs are Gen Y's better choice for retirement saving. "For most people, regardless of age, that's the vehicle for retirement saving – period, full stop."

Mr. Sellery recognizes that there are situations where RRSPs are not a good choice, one of them being for people who have a low income and expect that to continue through retirement. Another is in the case of young adults who are just starting their careers and are in a much lower tax bracket than they will be later in life (more on that shortly).

"Everyone else should be in an RRSP," he said. "This is not a discussion. The TFSA was not designed for retirement saving."

TFSA's weakness as a retirement vehicle is that it's too easy to withdraw money, Mr. Sellery said. He acknowledges that money can be withdrawn from an RRSP, but there's a small amount of paperwork and a withholding tax to be paid. TFSA money can be withdrawn simply by making a banking or investing transaction. "The TFSA is like a little bank account. People get tempted."

Mr. Sellery noted the two official ways to withdraw money from RRSPs – through the Home Buyers' Plan (for buying a first home) and Lifelong Learning Plan (to pay for full-time education or training). He believes that both continuing education and home buying are legitimate reasons to withdraw money from an RRSP, "although I have a bigger question about whether young people should buy real estate."

Conclusion: From a human nature perspective, RRSPs are a better choice in that they make it tougher to raid your retirement savings.

The tax perspective

"We like to say do both the RRSP and TFSA," said Wilmot George, director of tax and estate planning at Mackenzie Investments. "But for an individual who is just starting out, very often the TFSA is the way to go."

It all comes down to your tax rate. As a young adult just starting out in the work force, you'll likely have a lower salary than you will later and thus you'll have a low tax rate. Mr. George said this is a perfect time to use a TFSA, which you contribute to with after-tax dollars. Once you've put money in a TFSA, you no longer have to worry about taxes on investment gains or on money you withdraw.

Mr. George said that later on, when your salary and tax rate move higher, it makes sense to use an RRSP. With an RRSP, you contribute after-tax dollars and then get the tax refunded to you. The more you pay in tax, the bigger the bang you get from making an RRSP contribution.

Money in an RRSP – or, after age 71, a registered retirement income fund

(RRIF) – is taxed when you make a withdrawal. Mr. George said RRSPs work best when your tax rate in retirement is lower or the same as it was at the time you contributed money to your plan.

Conclusion: Many young people will find TFSAs a more tax-efficient retirement savings vehicle than an RRSP.

Your savings capability

The annual limit for TFSAs is $5,500 for 2014, and there's a cumulative $25,500 in contribution room for past years if you have never used one of these accounts before. For young adults and those who don't have much to save because they have young children, TFSAs offer ample savings room.

RRSPs allow you to contribute 18 per cent of your eligible income from the previous year, with a maximum for 2014 of $24,270 (that's up from $23,820 for 2013). Given the much larger contribution room they offer, RRSPs have to be considered for higher income people who want to save aggressively for retirement. Note: As with TFSAs, RRSPs allow you to carry forward your unused contribution room.

Conclusion: TFSAs are a building block for retirement savings, but you may need to use RRSPs as well to make sure you have enough put away.

Fees

Online brokerages have been cautious about charging administrative or account maintenance fees on TFSAs, which have only been around since 2009 and, thus, often can be modest in size. RRSP fees are a different story, especially for the small accounts that Gen Y investors are likely to have.

Fees on small RRSP accounts may cost as much as $25 per quarter or $100 annually. If you want to withdraw a lump sum from your RRSP, expect to pay $50 or more, in addition to a withholding tax pegged to the amount you're taking out. Taxes don't apply to withdrawals under the Home Buyers' Plan, but some firms will apply withdrawal fees.

TFSAs usually have no administration fees, but a few online brokers charge for withdrawals. In a small TFSA, a $25 withdrawal fee can eat up a significant piece of your gains.

For both accounts, be sure you make the right choice of broker before you set up the account. Many will charge as much as $125 to $150 to transfer an RRSP or TFSA to another firm.

Conclusion: TFSA fees are lower than those for RRSPs, but you can still get burned if you transfer your account to another firm.

CHAPTER 8

Gen Y's biggest financial decision: Buy a home or save for retirement

BY ROB CARRICK

Gen Y's biggest financial decision: Buy a home or save for retirement

Retirement could be 40 to 50 years ahead when you're in your early 20s, but you can't ignore it

Feb. 3, 2014

By Rob Carrick

Gen Y, you need to choose: Get a good start on retirement saving, or buy a house.

A lot of 20- and 30-somethings can't have both. They need to accept it, and start thinking about what really matters to them as a financial goal.

Home ownership vs. retirement saving: Now, there's a topic you don't hear talked about much in registered retirement savings season. Maybe it's because the people selling investments and advice for retirement also make a lot of money from mortgages. It's in their interest to keep up the fiction that it's no problem to do it all.

As part of Finance February here at The Globe and Mail, we're presenting information on investing and retirement matters of interest to all ages. Let's dig into what could be the most important financial consideration a young adult will make: Start saving for retirement, or for a house down payment.

Retirement could be 40 to 50 years ahead when you're in your early 20s, but you can't ignore it. Pensions aren't as good or available as they used to be in many jobs. Many Gen Y members aren't getting a sniff of a pension because employers will only hire them for contracts, not for full-time positions. And, our aging population will strain government finances in the years ahead.

Home buying is something you want to do in your 30s, which means you have to start preparing in your 20s by saving for a down payment. You'll need $25,000 to $30,000 to cover a 5-per-cent down payment on the average-priced resale home in Canada and closing costs. In cities like Vancouver, Calgary or Toronto, you'll need to save $5,000 to $15,000 more than that.

If you earn $40,000 gross as a 20-something employee, you might conceivably have $32,000 to take home after taxes and other deductions. If you saved 15 per cent of that much annually and used a high-interest savings account paying 1.5 per cent, you'd roughly need five to 10 years to get your down payment.

Let's back up a little to the point at which a young adult graduates from college or university. The top priority at this point is to pay off any student debt, not save for retirement or a house. Yes, the returns from investing might be higher than the rate on your student debt, currently 5.5 per cent for floating rate government loans and 8 per cent for fixed rate loans. (There's a 15-per-cent federal tax credit on government student loan interest, so your net cost on these loans is actually lower.)

But paying off your student debt isn't just about math. It also allows you to focus your full financial resources on your next goal. This is the point where you need to think about how home ownership fits into your future plans.

There's a trick for buying a first house and saving for retirement at the same time. You put money in a registered retirement savings plan, and withdraw up to $25,000 of it later on using the Home Buyers' Plan. This federal government program requires you to pay the money back into your RRSP, but those repayments can last for 15 years and may limit your resources for making any new contributions.

The HBP has been used more than 2.6 million times since it was introduced in 1992, which tells you that young people have long tilted toward home buying over retirement saving. With RRSPs being used to buy houses, no wonder there's so much concern today about whether people are putting enough away for retirement.

Dead set on buying a home as soon as possible and saving for retirement later? It can be done, but you'll need to really apply yourself once your kids are out of the expensive daycare years and you reach the prime earnings stage of your career. Forget about moving up to a bigger house and leasing a couple of SUVs – there won't be money for that if you want to backfill your RRSP.

Now, consider a radical alternative. You rent indefinitely, and build up a fat and happy RRSP with the money you're saving because you don't own a house. Maybe you turn your attention at some point to a house down payment, or maybe you don't. The one thing you know for sure is that you've nailed your retirement savings obligations by creating a pool of money that will benefit from decades of compounding.

Most people will go for Door No. 1, the house. No biggie. They just need to be ready to crank up the retirement savings later. Don't just nod your head that you will. You have to do it.

CHAPTER 9

Gen Y: Don’t believe the hype on home ownership

BY ROB CARRICK

Gen Y: Don't believe the hype on home ownership

If you're set on buying, making it for lifestyle, not investment, reasons

April 2, 2014
By Rob Carrick

The housing boom of the past decade has given young adults a whole lot of debt and some pitiful gains in net worth.

The twenty- and thirtysomethings of Generation Y who are entering the market today are in for worse treatment. A mindset for those who choose to buy a house: It's about lifestyle, not making an investment.

Home-ownership boosters base their argument that homes are a good investment on the fact that resale prices have increased more than 6 per cent annually since 2000, triple the inflation rate. This gain helped power a rise in household net worth that has been much talked about lately because it suggests households are financially strong.

Net worth is an overblown measure of financial health, as I argued in a recent column. But it's especially irrelevant in telling us what's happening with young people.

Statistics Canada says median net worth for families increased 78 per cent from 1999 to 2012 on an inflation-adjusted basis, or about 4.5 per cent a year. But in households where the age of the highest earner was under 35, net worth grew just 8.6 per cent in total, or about 0.6 per cent a year. Inflation averaged 2.2 per cent over that period, so those young-adult households were actually losing net worth on what economists call a real basis.

It's quite normal for young adults to have done poorly on net worth. "Gains in net worth have been driven mostly by real estate appreciation and, of course, those under 35 tend to have very little equity in their houses," said Doug Porter, chief economist at BMO Nesbitt Burns. "They probably didn't benefit directly in the appreciation of homes in that period."

What is a bit unusual is that net-worth growth in the under-35 bracket so markedly lagged the broader population, Mr. Porter said. He thinks this discrepancy can be explained as being a result of big home-equity gains by older households. They benefited from the housing boom much more than younger people because they owned more of their homes.

Okay, younger Canadians will catch up when future housing price gains help them build equity, too. Or so housing boosters say in the kind of forecast that is meant to encourage buyers to jump into the market, not help people make a sound financial decision.

A look at market fundamentals suggests prices can't keep rising indefinitely. Affordability is stretched in some cities, and an aging baby boomer demographic will soon start a downsizing process that could flood the market with homes for sale. There's also the financial world's law of gravity to consider: An asset that soars in price must eventually give back some gains.

Mr. Porter's forecast for housing: "I think prices will struggle to show any real gains in the next five to 10 years. Of course, it depends on the city. Calgary, for example, should do just fine."

After 13 years of massive real estate price gains, young adults were left with only a token increase in net worth. Debt, sadly, is a different story. Statistics Canada says under-35 households owed $36.44 per $100 in assets in 2012, by far the highest of any age group.

Young adults had the biggest debt loads back in 1999 as well, and it's easy to see why. Then, as now, they were still in the very early years of their mortgage and they may have had student debts to finish paying off. Carrying debt is normal for young people, you might say.

Problem is, you can't rationalize or justify that debt today by saying it's the cost of getting into a housing market with lots of upside. In fact, there's some downside to consider. A price drop of 5 per cent would be fairly modest, and yet it would wipe out the equity of people making the minimum 5-per-cent down payment.

Gen Y, the investment argument for home buying is always suspect because it so rarely considers the cost of mortgage interest, property taxes, insurance and maintenance. Today, you've got to be even more skeptical. If you're set on buying, make it for lifestyle reasons. Boomers will hit the jackpot with their homes, but you won't.

CHAPTER 10

Gen-Y's pain is real: Paycheques tell the tale

BY ROB CARRICK

Gen-Y's pain is real: Paycheques tell the tale

Markus Moos of the University of Waterloo looked at how earnings for young adults in Montreal and Vancouver have changed from 1981 to 2006 – and yes, young adults now really do have it tougher

Nov. 27, 2013

By Rob Carrick

Young adults are not to blame for their financial frustrations.

Their problem is an economy that has put them on track to be worse off than their parents. So much for the theorizing about them being spoiled, coddled and otherwise not as good as the generations that came before them.

"Young adults may see their parents having college degrees, owning a single-family home and having a certain standard of living," said Markus Moos, a University of Waterloo assistant professor who wrote a study on 25-year income trends for people aged 25 to 34. "What they have to realize, given the findings in the study, is that they're actually going to have a slightly lower standard of living than their parents."

Prof. Moos looked at how earnings for young adults in Montreal and Vancouver changed from 1981 to 2006. His starting point was Statistics Canada data showing sharp declines in inflation-adjusted incomes in both cities. The next step was to see whether these declines could be explained away by socio-economic changes like today's higher levels of postsecondary education and more workplace participation by women and visible minorities.

The decline in earnings for the young adults of Gen Y, also known as millennials, is sometimes dismissed as being a result of the fact that more of them are going to college or university. That means they get a later start in the work force than their counterparts did a generation ago, and thus are behind in salary.

But even after Prof. Moos adjusted his data for this trend, he still found young adults were making less than they did 25 years ago. He describes his study as using "statistical tools to show that somebody with the same degree, the same job and the same demographic profile is earning less today than they were in the 1980s."

I reached much the same conclusion in my Young Adults Really Do Have It Tougher column of last year. Now, an academic has further trashed the view that Gen Y's problems are self-inflicted.

While based on the latest census numbers available, Prof. Moos's study does not reflect the impact on young adults of the economic troubles of the past five years. But it's a safe bet there has been even more Gen Y backsliding. Certainly, the economic factors cited in his study remain.

He says young adults have been affected by an increasing emphasis by employers on temporary or contract work instead of permanent full-time jobs. These changes affect even people working in low-paying service jobs like slinging burgers or coffee. "The study is actually able to show that somebody working in a job like that is earning less than someone who worked at the same kind of job 20 or 30 years ago."

Gen Y is falling behind its predecessors, and it's also getting poorer in comparison to other segments of the population, Prof. Moos said. From 1981 to 2006, a young adult's earnings in Vancouver fell to below 70 per cent of the level for workers in older age groups, from 85 to 90 per cent.

The personal finance implications of Gen Y's declining economic status are endless, but similar in theme: Those who have less money will bear more personal financial responsibility for their own well being.

Take retirement, for example. Temporary or contract workers likely won't be members of company pension plans, so they'll have to dig deeper into their paycheques to save for retirement. They may also lack health benefits, which means they'll have to pay out of pocket for things like dental care. Other cost-saving benefits you get from working in a permanent full-time job often include a term-life insurance policy, a prescription drug plan and extended health coverage that applies if, for example, you get injured and need physiotherapy. The old personal finance rule about having an emergency fund to cover surprise expenses is a must for Gen Y, and yet these are the people who are least able to afford one.

The good news in Prof. Moos's study, published in the International Journal of Urban and Regional Research, is that an education is a big help if you're young and you want the best possible advantage in the workplace. He found that someone with a degree earns more than someone without a degree, and this advantage has increased over time.

As covered in a column from earlier in 2013, your job and earnings prospects depend a lot on what you study in college or university. Smart educational choices may be your best defence against a job market where young adults are worse off now than they were 30 years ago.

CHAPTER 11

The real cost of home ownership

BY ROB CARRICK

The real cost of home ownership

In any comparison of renting versus buying, remember that mortgage payments are only part of the equation

May 1, 2013
By Rob Carrick

The sucker's analysis of whether it's affordable to buy a first home is to compare the cost of rent and a mortgage payment.

Any veteran homeowner can tell you that mortgage payments are only a portion of what it costs to own a home. First-time buyers may be familiar with additional costs such as property taxes, but there's a whole range of other expenses that are sporadic and thus hard to quantify.

Here's an example: Last month, we had to pay to have a raccoon family evicted from our attic. Other costs of the past few years at our house in Ottawa include new shingles for the roof, a plumber's visit to replace a leaky water shut-off valve in the basement and a service call for our central air conditioner. There was also a bathroom renovation made necessary by the natural deterioration of house components over time.

Affording these expenses is part of the financial juggling that has always come with home ownership. But these costs require extra attention from today's prospective buyers. While the housing market has lost momentum in some cities, prices have still risen much faster than incomes for the young adult demographic in the past decade or more (I'll have more on this in an upcoming column). If you buy today, you may find you're using up a sizeable share of your household income just to pay the mortgage.

Mortgage rates are still near historical lows, and that's a big help. But rates will eventually rise. If you're taking out a five-year mortgage today, expect to pay a higher rate on renewal.

Lenders and real estate agents offer all kinds of help in deciding whether you can afford a house (read my take here). But today's savvy buyer has to look at affordability from the perspective of both buying and owning. To help first-time buyers understand what they're getting into, let's look at the cost of buying a $400,000 house with a 10-per-cent down payment and a five-year mortgage at 2.89 per cent.

Before we get into the costs of owning this house, let's quickly consider closing costs. The federal agency Canada Mortgage and Housing Corp. estimates that legal fees, land transfer taxes and other costs amount to roughly 1.5 per cent to 4 per cent of the purchase price, or $6,000 to $16,000 in our example.

Not included here is the cost of moving, or of making immediate changes or upgrades in your home. At the low end, you may spend a few hundred dollars at Rona. In a discussion on home ownership costs on my Facebook personal finance page (facebook.com/robcarrickfinance), someone talked about spending $6,000 on changing light fixtures, painting, adding window coverings and such. A small but worthwhile cost when you move in: Spend $200 or so to have the locks re-keyed.

Monthly mortgage payments for our $400,000 home would be $1,860 (accelerated biweekly payments have been converted into a monthly cost), which may be cheaper than rents in some cities. In comparing renting to buying, you have to consider the fact that you're building equity as an owner. But here we'll just look at the month-to-month costs of keeping a roof over your head.

My colleague Claire Neary blogged this week about her troubles finding a large one-or two-bedroom apartment in Toronto, and the listings she's seen are in the $1,700 to $2,200 range. Of course, houses cost more in Toronto, too.

Another basic cost of owning is property tax. Many cities offer online property tax calculators; a Google search will help you find them. Let's plug in $300 per month here to cover an annual tax bill of $3,600.

Next, add the monthly cost of home insurance. Renters need to pay tenant's insurance, but the bill is much less than what owners pay. Let's budget $65 per month, based on an annual premium of around $800. This brings our monthly costs of ownership to $2,225.

One more thought on monthly budgeting: Both renters and owners pay for utilities every month, but you should expect hydro, heating and water bills to be double or more if you own a house.

Now we come to the random home ownership costs that make renting look good: replacing a furnace, reshingling a roof or major paint jobs. For a sampling of these costs, check out a Google spreadsheet I created to get input from readers. Feel free to add your own notes and share the document.

Don't just think about whether you can afford the various costs of owning a home. The real question is what's left over afterward for saving and living your life.

CHAPTER 12

Twelve pieces of financial wisdom, from a retiree to his adult children

BY ROB CARRICK

Twelve pieces of financial wisdom, from a retiree to his adult children

During Financial Literacy Month, this smart-money manifesto stands out

Nov. 11, 2013

By Rob Carrick

A father's advice to his daughters about debt, saving and investing may just be the best financial literacy lesson you'll read this year.

November is Financial Literacy Month, and that means a deluge of tips from banks, consumer groups and financial industry professional groups and regulators. But a note that Chris Brown of Winnipeg recently sent to me beats them all as a source of advice on money.

Mr. Brown is a 62-year-old former university lecturer (astronomy and data management). Recently, he created a smart money manifesto for his two daughters and sent a copy to me by e-mail. "My wife and I are happily retired in part thanks to you and your years of advice," he said. "There's nothing new to you in the advice below that I am passing on to my 30-something kids. I'm just sending it so you know how helpful you've been."

Thanks for that, Mr. Brown. Your basics of personal finance and investing are so good they demand to be shared with other readers. Here are Brown's Rules, in a slightly edited form:

1 Spread the pain of saving and pleasure of spending over your whole life. Don't save so much now that you're eating Kraft Dinner every night, and don't spend so much now that you're eating Kraft Dinner every night when you're 75. Care for yourself equally at all ages.

2 Get out of debt and stay out of debt.
The only good debt is one where the value of what you bought increases more each year than the interest rate you're paying. For most people, the only thing that does that is a house or property. Every other kind of debt gives your hard earned money to the bank or credit card company.

3 Come up with a realistic cost of retirement.
Estimate how much it would cost for you to live a simple but enjoyable retirement today (forget the world cruises), then estimate how much inflation will increase that number in 35 years. That's your target. Remember that your mortgage will be paid off, but health-care costs will be higher.

4 Leave your home out of your retirement income plan.
You have to live somewhere all your life. I have watched a number of people sell their big homes and move into something smaller. In the end, most of them got very little cash out of the deal for one reason or another. There are too many places for it to leak away. Choose a house that is just the right size for your family and resist getting something bigger. It just costs more to operate and maintain. Do not be house rich and cash poor.

5 Hire an investment planner who does not sell any investment products of any kind.
These people charge by the hour. That's their only income, so they have to provide value for money the first time and every time you meet with them. Anyone who also sells a product can't help but be biased. It's just human nature.

6 Don't plan for inheritance, lottery winnings or other windfalls to fund your retirement.
It's wonderful if they come to pass, but for most people they do not. You can't bank on them.

7 Diversify.
Have at least three to four different investment types, so that if one chokes, the others will carry you through. Stocks, bonds, private property other than your home, and long-term bank savings are a good mix to consider.

8 Plan to be in your investments for 50 years or more.
Your kids can inherit what you don't use.

9 Don't try to time investment ups and downs when buying and selling.
That's gambling. Buy a little bit every month, or every three months. Over 50 years all the ups and downs will average out.

10 Don't assume everything will work out on its own.
It won't. Retirement planning takes clear vision and steady effzort year after year. You will have to give up some of life's pleasures today in order to have them later. Don't gamble with your future. Kraft Dinner is only fun once in a while.

11 Don't gamble with individual stocks. Buy whole stock markets.
Stocks are an important part of every investment plan. Over the years they go up not just with productivity but also with inflation so they protect you against that. The main problem with stocks is that people buy just a few different companies they like. Unless you have had many years of financial training, that's pure gambling. Buy whole stock markets. For example, buy a low cost mutual fund or exchange-traded fund that tracks the entire stock market. These are called index funds and they track indexes with hundreds of stocks.

12 Don't worry if markets crash.
Never panic sell – that is a guaranteed way to lose money. Markets always go up again. It just takes some time. Sometimes, if I have a little cash lying around, I buy a little extra when the market crashes.