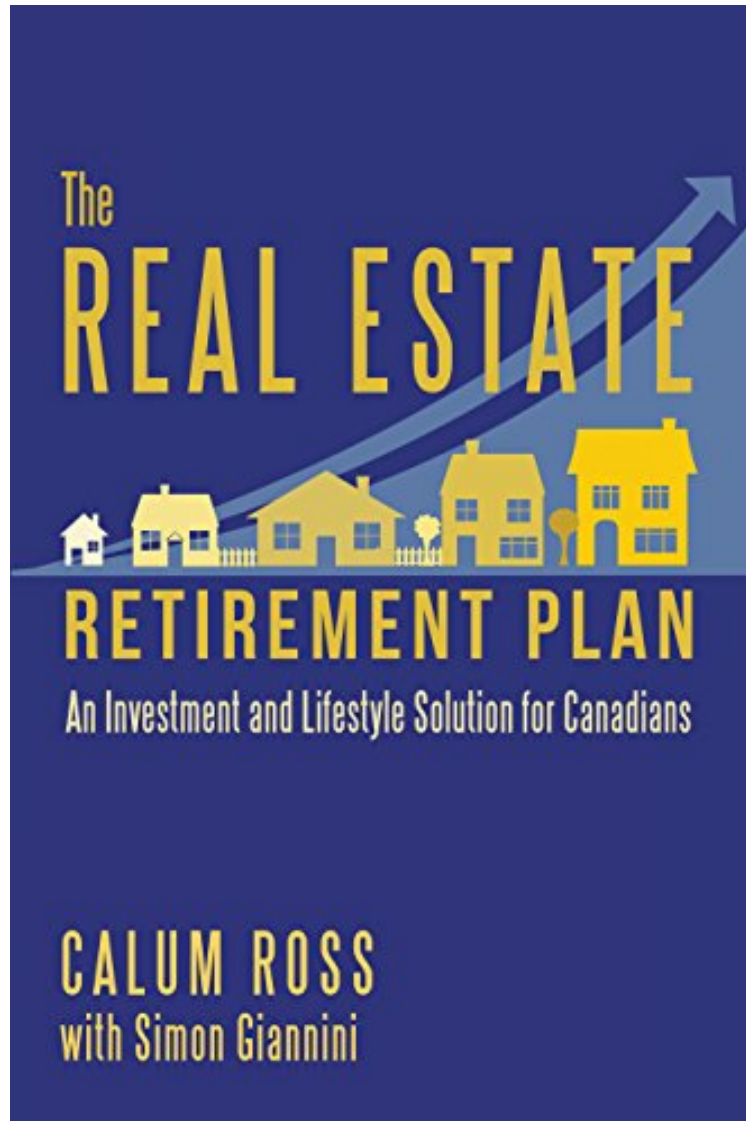


The Real Estate Retirement Plan: An Investment and Lifestyle Solution for Canadians

Calum Ross

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Calum Ross : The Real Estate Retirement Plan: An Investment and Lifestyle Solution for Canadians before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Real Estate Retirement Plan: An Investment and Lifestyle Solution for Canadians:

Leveraging equity in a principal residence and using it wisely to purchase rental property is the solution to a safe,

secure retirement for millions of Canadians. With examples and a detailed discussion of the principles and mechanics, this book will demystify and make an irrefutable case for borrowing to invest.

“Provides a fresh and alternative perspective on the growing body of retirement literature. Young readers in particular might want to find a place in their libraries for it.” (National Post)

“A perspective worth considering.” (MoneySense Magazine)

About the Author
Calum Ross is a leading authority on personal finance and investing in real estate and has spoken on stages all across Canada and the U.S. He has funded over \$2.5 billion in mortgages since 2000, helping to create more than \$1.8 billion of incremental net worth for his clients. He is an alumnus of Harvard Business School and holds an MBA in finance from the Schulich School of Business. He lives in Toronto. Simon Giannini was the CEO of the Real Estate Centre in Toronto and host of The Real Estate Talk Show on CFRB 1010 AM in Toronto.

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“I’ve been fortunate enough to give hundreds of talks about personal finance, mortgages, and real estate investing across Canada, from teaching MBA students at two of Canada’s top MBA programs to speaking to large groups of “everyday people” at major convention centres. I’ve learned many lessons from these talks, and I believe any speaker will tell you the same thing: as much as we try to add value to our audience members’ lives, we probably receive more from them. Of all the lessons I’ve learned, I believe the core lesson is about the general psychology of money. It comes down to this: In spite of our best efforts, we fail to think mathematically about money. Instead of calculating income, expenses, taxes, and ROIs, we act emotionally and instinctually. We allow the momentum of past generations to decide our financial future. I’ve often started talks with a simple question that demonstrates the time value of money. You can play along at home by asking yourself this: Would you rather have \$1 million today or a penny that doubles every day for a month? Keep in mind that attending a live event is akin to entering into a social contract. You often know that the speaker will try to disorient you, challenge you, and alter your perspective. With this social contract in place, you’d think audience members would expect a challenge question and that the correct answer would be obvious. When a speaker asks such a question, the counterintuitive choice must be the correct one. But even knowing that I’m asking a challenge question, the audience’s response is typically heavily weighted to the answer that will give them far less money. When I ask them to raise their hands if they would take the \$1 million, a large majority puts up their hands. When I ask who would take the penny that doubles every day for a month, the number of hands that go up is a small minority. I need to stress again that the audience will do this in spite of the fact that it must be obvious I’m presenting a challenge question. It’s a tangible example of how we struggle to think mathematically when it comes to money. Now, \$1 million sounds like so much money compared to a little old penny, but due to the power of compounding interest, that little old penny is worth \$5,368,709.12 by day thirty. If you want to consider a thirty-one-day month, it would be worth \$10,737,418.24. In both cases, that little old penny has been transformed into a magic seed, and, not unlike a seed, we don’t see its possibilities until it has grown. The typical audience response is instructive, as this is exactly what happens in the daily financial life of most individuals. Due to a failure to think mathematically, or a misunderstanding of compound interest and the time value of money, we make impulsive decisions that are bad for our finances. If we can’t visualize compound interest and the time value of money even when the example is extreme (doubling daily), what chance do we have with the pedestrian conditions of real-world finance, where a strong return might be only 7 percent over an entire year? Once you add in market fluctuations that result in paper losses some years and poor decision-making that leads investors to pull out of the markets, you end up with the shaky and often difficult-to-understand reality that most investors face. Because we fail to understand the opportunity cost and time value of money, we continue to make short-term financial decisions. We are willing to give up \$10 million for \$1 million. Is there any wonder why we struggle to take control of our financial lives? Our mental models around personal finance are largely broken. Failing to invest early is the greatest of these weaknesses. Business Insider recently told this age-old story graphically using imaginary investors — Bill and Susan. Susan invests \$5,000 each year between the ages of twenty-five and thirty-five, for a total investment of \$50,000. As I hope you never would, Susan stops investing at age thirty-five. Meanwhile, Bill doesn’t start investing at age twenty-five. But he smartens up at age thirty-five and starts investing \$5,000 per year (as Susan did for only a decade). Bill decides to make up for his failure to invest early by investing longer than Susan. He invests \$5,000 every year between the ages of thirty-five and sixty-five. Overall, he invests \$150,000 of initial capital compared to Susan’s \$50,000. But, in spite of investing a third of the initial capital, Susan’s portfolio at sixty-five is significantly larger than Bill’s. Due to the power of compounding and the principle of investing early, Susan has \$602,070, while Bill has only \$540,741. But we Canadians are prudent folks, aren’t we? Surely most of us live more like Susan than Bill? Actually, statistics suggest otherwise. The household savings rate in Canada has plummeted in the past few decades from around 20 percent in 1981 to slightly below 5 percent today.² There are a lot more Bills than Susans. Pun intended. Bill is probably average. But on the lower side of the average, many people have next to nothing in their retirement accounts. Failing to invest early is the biggest, nastiest risk of all the retirement risks. But who can blame Canadians for not saving early? Life is expensive, and many people simply don’t have any cash left over at the end of the monthly bills. Plus, who wants to live a spartan life without

some of the simpler enjoyments, like a family vacation or two every year and a car that doesn't squeal? I won't (yet) talk about Canadians' tendency to borrow money to purchase expensive liabilities like boats and vacations. But even without these needless expenses, many people don't have the resources to get started investing young. Hence the savings rates are low. This is the changing nature of our personal finance environment. It sounds bad, and for many it is bad. But, more than anything, it simply represents a change in the marketplace and Canadians need to adapt. You can change your approach, however, so that you can take advantage of massive sources of capital that are just sitting there, right now, to be used. Tapping into this "dormant equity" will allow you to overcome this first major hurdle on your way to a successful retirement. It will allow you to invest early and, therefore, profit longer.