

The Just Word Podcast

Transcript of Episode 28: Personal Finance Tactics for the Real World

Guest: Erica Alini

Pat Bolland 00:00

Erica a real pleasure to meet you.

Erica Alini 00:03

Hi Pat... thanks so much for having me. Pleasure to meet you, too.

Pat Bolland 00:07

You've just released the book 'Money Like You Mean It; Personal Finance Tactics for the Real World'. And as I went through, it's kind of like a well rounded guide that dives into things like debt, housing, investing those kinds of things. If you had to take a holistic view on personal finance, what's the biggest thing that you think has changed in the last say, decade?

Erica Alini 00:28

Yeah, so the the book is really sort of a complete, comprehensive Starter Guide, if you're between your 20s and your 40s. That's what I wrote it for. And my general take on personal finance, which informs the whole book and is really, you know, a fact that yes, millennials like me, and Gen Z, but really every generation, is that things are getting more complicated. There are a number of big forces, economic, technological, social, even climate change is sort of conspiring to make the, you know, day to day money management decisions, as well as the big financial decisions that we face in life more complicated for everybody. And also, we're increasingly on our own, you know, trying to save for retirement, you making investment decisions. So really, the knowledge base that you need to make good decisions is getting wider and wider. And that was the prompt for me writing the book.

Pat Bolland 01:32

Okay, but when you look at millennials, are they inclined to be do-it-yourselfer, kind of people? And if so, do they have the tools? Do they have the education to do that? And isn't that part of what you're trying to accomplish?

Erica Alini 01:47

So I would say more and more millennials are do it yourselfers. So it's funny because I started writing the book, just before the pandemic. And so I had a certain idea in mind, and I had to sort of, in real time, change direction, in a few places. And one of them was investing because I was writing this investing chapter that was sort of addressing people who are afraid of investing. That said, it's quite common, even still among millennials. And there's this idea that's been there for a very long time and personal finance that, you know, there's like basic personal finance, which is, you know, budgeting spend less than you make, you know, that kind of stuff. And then there's the advanced stuff, which is investing and a lot of people treat it as optional. And I wanted to say no, it's absolutely not optional. Unless you have a generous employer pension, you absolutely need to know about investing. But as I

was writing, and we had, you know, this pandemic bull market, and so many young people started becoming DIY investors, especially millennials, younger millennials, and older Gen Z, they just dive right into the stock market. And so at one point, I was like, uh-oh, I guess I have two groups to address those who are afraid of investing. And those were feeling very, very confident about their own DIY Investing skills, because they started investing in this bull market, and they haven't really lived through anything else. And then my main message is, no matter where you fall, like if you're afraid of it, or you're super confident, and you've had a really good run in the past couple of years, you need to learn the basics. And that's what I sort of go over in my chapter on investing.

Pat Bolland 03:34

Wow. Yeah, interesting point that there's this split between investors out there, do you get the sense that the investors that are comfortable are being too risky? In doing things like investing in Bitcoin or high tech that they might not understand or, or those kinds of things?

Erica Alini 03:52

Yeah, I think there's a, if you're talking about the millennial generation in particular, there's ... so I'm an older millennial or an X-ennial... almost, you know, like, at the crossroad between millennial and Gen Xers. And I think, you know, if you look at millennials, there's a lot that, you know, what will bring us together is the struggle to afford housing. But the big divide between older and younger millennials is the experience in the, you know, the financial markets, I sort of, quote unquote, came of age, financially speaking, you know, I started being aware of the financial markets, right, you know, when the financial crisis, that's where it really started. And so, I really I saw that crash and I saw how long it took for the market to recover. And this is my second, is really my second, you know, the pandemic market crash would be in March 2020 was my second big dive. And then I knew that the recovery was so fast and so steep, but I had that frame of reference, you know, of 2008 to help me, you know, to guide me and that, you know, I personally experienced both, whereas younger millennials, and there's a lot a lot of people who started investing just when the market started bouncing back from that very, very steep, but very short, short lived, dive that we had in the spring of 2020. And I don't really have any personal memory of how the, you know, the market doesn't always bounce back the way it did in the pandemic. It's been a very weird market. And so yes, I think there's a lot of people who are overconfident out there, and frankly, you know, your bragging rights or not, I would say, you know, be careful, because it's what we've seen in the past couple of years is not typical.

Pat Bolland 05:54

Yeah. And that's not only true of what's happening in the stock market. And I was a little surprised that when you were talking about, you know, the biggest changes we've seen, for millennials, I would have said housing, because housing prices have, Gosh, in the last five years have kind of doubled, in some cases tripled. And that would affect you right?

Erica Alini 06:16

Yeah, and honestly, I think that there's a bit of a link between housing and financial markets. And, obviously, you know, there's a link of that, you know, all kinds of assets have seen tremendous appreciation, during the pandemic, you know, from housing, to stocks, to Pokemon cards, to crypto, there's a lot of people sitting at home with a lot of money, a lot of savings and a lot of time, and I

suspect that this has something to do with it. But I'm thinking No, psychologically, I think for millennials, here in Canada, and possibly elsewhere, too, because really, you know, we have a global, you know, crazy housing market. There's a psychological link, I think, between not being ... the feeling that you can't afford that, you know, a home prices are rising so much faster than you're able to save, than your income. And I think people sort of are chasing higher returns in in the financial markets, possibly to kind of make up ... I've certainly heard a lot of people who have invested their downpayment in very risky assets to try and grow it fast because the feeling is if I just stick it in a in a savings account and rely on my own savings, I will never make it and yeah, it's risky, I would not never advise to invest your downpayment in, to put your downpayment in stocks, let alone Bitcoin. But I do understand where people are coming from

Pat Bolland 07:56

Against that background, then should people consider renting as opposed to owning because the downpayment is getting more and more substantial, and the debt obligation as well.

Erica Alini 08:08

Yeah, I, yes. So, housing is the challenge for my generation and the generation that's coming up after me. And I would say so in the book, I, you know, there's this stigma against renting, and I really push back against it very hard in the book. From a financial point of view, it really shouldn't make any difference, you know, whether you're buying a house and owning or renting, both can work. From a financial point of view, like financially speaking, there's nothing wrong with renting. You can rent for your entire life, if you're able to comfortably save, and if you know how to invest and you have, you know, a diversified portfolio and you know, you're doing ... you're comfortable with taking a little bit of risk, you know, in a broadly diversified portfolio, you can be a wealthy renter. However, you know, a bit of background about me, I was born and grew up in Italy. And I had no concept when I moved to North America, that there was anything wrong with renting. But after being a renter for many years, between Canada and the US, I'm a little leery of renting in North America because yes, from a financial point of view, there may be, you know, both can work. But the truth of the matter is, there are a number of sort of, of lifestyle penalties that you often face as a renter. So first of all, you got to find a good landlord. Not always easy. There are good landlords out there. Not saying that there aren't, but you know, you might face a lot of instability again, their landlord out there, who'll be happy to sign a multi year lease, but especially if you're in a very hot competitive rental market, you know, not so much. And most of all, if you are thinking of being a long term renter, and of having kids and you want something a little bigger than, you know, a bachelor apartment, it can be a real struggle to find that kind of rental apartment, like really, most of the rental market is really geared to people who are, you know, who don't have kids and don't really need very big homes. And that's a real issue. And it's not often addressed in personal finance. And so my frustration is that you get all this advice about how when you're doing the math, you know, renting may make a lot of sense, you know, then go out there and trying to find the house that you need, you know, in a good school district and, you know, be, you know, and trying to make sure that your kids are gonna be in that school district until they're done with school. That's, that's not easy.

Pat Bolland 11:01

And I've gone through a lot of those question marks in the past. But on the flip side of the coin, if you think about debt, and there's certainly a lot of debt and you make the point in your book as well, that

there's a lot of debt in the country overall. But is debt really an issue these days with interest rates as low as they are? Mortgage rates are 2%? I remember when mortgage rates were 15%?

Erica Alini 11:26

Yes, I would say it is an issue, although sometimes it's exaggerated sort of how much of an issue it is. But yes, I think that is a, it is a big issue. And you know, mortgage debt is the big chunk of our debts. And, you know, mortgages are always treated as this very benign debt that they almost need to have to feel like you're a real adult, here in Canada. But you know, be careful because people have taken on so much debt. And some of us are so stretched out and stretched thin that, you know, interest rates can go up, right, and we're, we'll be watching. We know what the Bank of Canada does. And certainly, central banks across the world are expected to start to increase rates. And a lot of us, a lot of homeowners will be sheltered from this from maybe a few years because most Canadians have fixed rate mortgages. And so you don't feel that right away. But I mean, another type of debt that comes, you know, that's very common with homeowners, especially, you know, the pandemic triggered a housing boom, but also renovations boom. Lots of Canadians, finance renovations, with home equity lines of credit, they often have, they usually have, variable rates, right. So if you have a big balance on a line of credit, then you're gonna feel that right away.

Pat Bolland 13:02

You know, it's interesting, Erica, the book tackles some areas that personal finance authors often don't, things like couples and having babies. And what I found particularly interesting was insurance. And you dive into the world of insurance to a degree. How important do you see insurance these days and against the background of things like climate change, and fires and floods and those kinds of things?

Erica Alini 13:27

Yeah, I feel like insurance is really one of the neglected areas of personal finance. And that's why I wanted to include and make sure that it was in the book. And yeah, so I mentioned, you know, when we were talking about the big trends that are making personal finance more complicated, that includes climate change. So take home insurance, right? It used to be this very straightforward thing. You know, you'd buy your house get home insurance, you can't even usually get a mortgage without home insurance. But that was it very, very plain vanilla simple thing to do. And now you you should ask, or you should ask yourself, whether you're going to need flood insurance. Many many Canadians, if I remember correctly, was at about 20% of households in Canada are at risk of flooding. And I don't mean just flooding as in like, you know, from rivers and lakes, although the number of Canadians who are at risk of overland flooding is growing and growing. But even if you're in a city like in a big city like Toronto, and you have old city pipes, we're building and building and building and this old pipes are carrying more and more water. We're getting these rain showers that are like sudden downpours that overwhelm these old pipes so their risk of having the water backup into your home and flood your basement has increased tremendously. And not to mention that so many of us now have finished basements because we can't afford bigger houses. So we're kind of expanding within the existing house that we have. And that really raises the cost of flooding. If you've got a, you know, finished, I think the average the average cost of a flooded basement in Toronto is \$40,000, which is significant. And the thing is, you have to ask if you need flood insurance, so your your plain vanilla, home insurance will protect you against things like you know, I don't know your dishwasher breaks. So you know, that

kind of your own pipe in the house springs a leak, but they will not generally cover you for, you know, water backing in from the city pipes, or overland flooding, and you need additional coverage for that. And you need to know to ask for it. And that's a classic example. It's a great example of what I mean by like, it's becoming more complicated. And there's more that you need to know, to make good decisions. Lots of people have no idea to ask for flood insurance when they get home insurance, and nor do they know to check whether their home is in a floodplain or to sort of check the house when they're buying a new house to make sure that you know, and do all those little things that you can do to decrease the risk of flooding.

Pat Bolland 16:29

On a separate insurance side of things, what are your thoughts on life insurance? Because I've heard people in the past advocate life insurance as an investment vehicle. For that or against that?

Erica Alini 16:42

I think life insurance as an investment vehicle is pretty complicated. And it's also not something that I am, you know, it's not a topic that I'm very familiar with. I would, I'm a huge advocate of having life insurance. You know, the typical case, you know, the most people are ... need life insurance, because they have dependents and they want to make sure that their dependents are going to be okay if something happens to them. And the good news is if you're young and you're healthy, so called the term life insurance, and I explained what that is, and the book is so cheap, we're talking about very likely less than 50 bucks a month, probably maybe even 20. So something eminently affordable, that you should absolutely have if you have a significant other or kids or any other people who depend financially on you

Pat Bolland 17:41

Get the cheap term and then invest the balance is the is one of the messages.

Erica Alini 17:46

Yeah, I would say you can just invest your savings ... DIY. That ... keep it simple.

Pat Bolland 17:54

Absolutely. Erica, thanks so much. I enjoyed the book.

Erica Alini 17:58

Thank you so much. I'm glad you did.

Pat Bolland 18:00

Erica Alini wrote 'Money Like You Mean It; Personal Finance Tactics for the Real World'.