The September hangover – here's how to get back on track after a big spending spree

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Rising interest rates are persuading some younger people to cut back.

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Some of Maili Wong's clients spent lavishly on travel, new cars, home renovations and, in one case, a big boat through this past spring and summer. Others gave sizeable gifts – "in the hundreds of thousands of dollars" – to grandchildren to help with down payments and mortgages. Part of the spending impulse came from an understandable desire to shake off the pandemic, but some advisors see the fall as an opportunity for a reset.

"Continued excessive spending can have a materially negative impact on clients' investment portfolios," says Ms. Wong, senior wealth advisor and senior portfolio manager with The Wong Group at Wellington-Altus Private Wealth Inc. in Vancouver.

"If they spend consistently more than they earn, or if they withdraw funds from their savings or investments to cover expenses, it can deplete their portfolios over time, and this can impact their ability to achieve long-term financial goals like funding education, buying their first home or retirement pretty significantly."

So, how is Ms. Wong helping her clients get back on track this fall? She likes to use illustrations that demonstrate how spending decisions today will affect them in the future.

Another big purchase may delay the date they reach a "work-optional life" or cause them to miss out on investment opportunities at attractive prices. Whatever the tradeoff, one solution may be to wait a year or two to reach a place of greater financial flexibility when spending won't be as damaging to their long-term financial prospects.

Ms. Wong finds that simply understanding how the effects of today's spending compound over time often persuades clients to cut back on expenses. She worked with one couple who were surprised to discover they were spending $20,000 a year on wine and concluded that moving from $80 bottles to $50 bottles would still allow them to enjoy their lifestyle while topping up their tax-free savings accounts.

"We review and adjust [financial] plans regularly based on [clients'] actual spending habits, and I'm happy when they make adjustments based on that awareness," she says. "Ultimately, there's always a way."

Interest rates curtailing young clients' spending

Simon Partington, portfolio manager and investment advisor with Partington Wealth Management at Richardson Wealth Ltd. in Toronto, doesn't expect older high-net-worth clients to slow their spending in the near term, but rising interest rates are persuading some of his younger clients to cut back.

He recently explained to two clients with variable-rate mortgages that while their regular payment hasn't changed, the percentage going to interest has now reached 100 per cent. That means they're not making any progress toward paying off the principal.

"They're going to be indebted to the banks forever at these rates," he says. "That was a huge eye-opener that both had no clue about. [I told them,] 'You haven't had that

lifestyle change yet because of your mortgage payment being set, but you need to.'"

He got them to increase their monthly mortgage payments so that they're still paying off some of their mortgage.

Those clients will have to reduce other spending to absorb that extra monthly cost – but they understand it's important for their long-term financial health.

Mr. Partington encourages every client to estimate annual spending for the next 25 years so he can work that number into their financial plan. Then he keeps them accountable by letting them know every year whether they're over-budget or under-budget.

He also explains that higher returns can help to achieve a plan's goals, but so can lower spending. For example, during the first part of the pandemic, people couldn't spend as much on travel, so they stayed on target despite volatile returns.

When a budget is in the black and returns are healthy, a big expense won't take them off course. But, the reverse is also true.

"A $10,000 change per year can make a meaningful difference longer term," he says. "In the planning software, we show [clients] that their net worth at the end-of-life expectancy at 100 can change drastically with very small budget changes."

Inflation also delivers a dose of realism

While Mr. Partington has noticed some clients deciding to spend now to avoid anticipated higher costs in the future, Kate Childerhose, financial advisor with Edward Jones in London, Ont., says inflation combined with higher interest rates is dampening spending among many of her clients.

She's seen some clients opt for trips closer to home, driving instead of flying and taking day trips rather than overnight stays. Others are holding onto cars longer, swallowing the cost of repairs to avoid the big outlay of a new car purchase. Meanwhile, she's been leading clients systematically through a rediscovery process.

"Clients are having to re-evaluate their priorities and just continue to work on making ends meet," she says. "Life happens to us all and we need to now sit down

and look at where we’re at and make a new plan.”

Ms. Childerhose works to solve clients’ short-term cash crunches while sharing projections that communicate visually the long-term effects of various options on their ability to meet long-term goals. She says it’s important to provide a “safe space” in which clients can feel comfortable sharing information, and she positions herself as a partner who can help them make the best financial decisions.

“There’s nothing to hide here. There’s nothing to be embarrassed about … We all get off track from time to time,” she says. “But if I understand where we’re at and what’s going on, then I’m able to make better suggestions.”

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