

# Value for Money Investing by Gordon Stockman, CA, CFP

## Back to Basics



I do not know about you but for me the year seems to start in the summer and end in the summer. I guess I never grew out of being a student, when every new year began after Labour Day, not on January 1st. So, for the start of my year, I thought I would go back to the basics.

I often conduct seminars at the local Ontario Early Years Centres. These sessions are variously called: Financial Planning for Young Families; Taking Care of What Really Matters; or RESPs – Does Your Education Savings Plan Make the Grade. Regardless of title, we invariably talk about basic financial planning. We also try to develop a bit of a checklist to help these families get, and stay, on the right path.

### What are the basics?

**Your earning power is your greatest asset.** You will earn a fortune during your life. Not you! Well, fortunes are surely relative, but even someone earning the minimum wage could earn over \$750,000 during their working life (2008 \$s). That's a lot of money. More importantly, that money provides you with what you have or will have.

Most people's next biggest assets are their home, if they own one, or their car. If you are like most people, you have well insured these second or third biggest assets but neglected the first. Do you have life insurance to make up for your income if you die or do you have disability insurance to replace your income if you cannot work? Have you stopped to consider that if you have dependents life insurance may be essential or if no dependents or no spouse, then disability may be even more important? Who is to take care of you if you are seriously ill?

We often see young people without dependents with life insurance, since it is relatively inexpensive, but no disability plan. Note the use of the word 'plan' not 'insurance'. What is essential is that you have a plan that can answer the question: How will I live if I can no longer work —ever? Maybe the answer lies in relying on the charity of a family member. If that thought frightens you, then maybe some disability insurance is in order.

**Be a Saver before an Investor.** As an investment professional, one of the biggest problems that I see is families with no cash reserves. Life has a way of getting in the way of even the best laid plans and emergencies do happen. Loss of a job, an illness, a home repair or a car accident are among the most common. You need savings to meet these surprises. You often need the cash now. Savings are for those NOW times.

Being an Investor means that you are in for the long term. If you have bought RSPs, you are an Investor. If you bought a RESP for the kids, you are an Investor. If you own mutual funds, stocks or bonds, you are an Investor. If you need those funds NOW, you are a poorer Investor most of the time. Investments usually have very uncertain returns over a short time span, but are much more reliable over the long term. Lack of savings will cause you to often make withdrawals from your RSPs, stop the kids' scholarship plans or sell those mutual funds on the worst possible day. Believe me, the lack of savings will make you a terribly unsuccessful Investor most of the time.

It is for this reason that I dislike very much the sales practices of Scholarship Savings Plans, where they are often pitching their products at the most vulnerable times; while the new mom is still in the hospital. In your desire to ensure your children will have access to a great education, you become a long term investor before you are even a saver - often to disastrous results.

Tell your mutual fund or scholarship plan salesperson, "Help me become a saver and I will be a better investor AND client later! Help me pay down my debts because that is savings as well".

**Know your income and your spending!** Most of us can tell you right away how much we earn a year. However, most of us never quite take the time to sit down and figure out how much we actually spend and where. When times are tight, this is even more critical - this is essential information. If we earn less than we spend, the solutions are easy; spend less or earn more. If you cannot or are unwilling to cut the spending, get a second job or work longer hours. Do whatever it takes OR cut the spending. Move to a smaller apartment, get rid of the car (or the second one) or cancel the cable service. Do what it takes to cut the spending OR get a better job. You do not have a choice here. If you spend more than you earn, you are headed for a hard fall. Remember, that raise you are getting will always be farther away than you think.

Remember, back to basics.

Value For Money Investing means we wish to allocate and use our hard-earned resources in order to improve investment outcomes in a continuous and sustainable way at a fair and equitable price. In other words, achieve good investment returns AND receive fair value for the services provided.



**We endeavour to provide unbiased, independent superior financial planning and wealth management services, on a fee only basis.**

Efficient Wealth Management is a leader in cost efficient financial planning. We have developed cost efficient strategies for managing the wealth of investors, both small and large.

### COSTS DO MATTER

Look at the chart and determine how much more you could keep in your pocket after a 20-year period, if you could reduce the overall fees in your portfolio by just 1%

START VALUE	RETURN OF %7	RETURN OF %8	YOUR SAVINGS
\$100,000	\$386,000	\$466,000	\$80,000
\$250,000	\$967,000	\$1,165,000	\$198,000
\$700,000	\$2,700,000	\$3,262,000	\$562,000

**Call us. We Can Help!**

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Gordon is the Vice President – Financial Planning at Efficient Wealth Management Inc. a leader in cost efficient financial planning. He teaches at George Brown College in their Financial Services and Accounting area. He is also a frequent guest on television and has written numerous articles on investing and financial planning.