



Acquiring Your Wealth To Fulfill Your Dreams

*Dreams cost nothing
Implementation gets expensive*

Robert Livingston

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Introduction

I have been involved in the wealth management industry for over 35 years. I have seen wealth managed well; I have seen it managed poorly. I have seen wealth create opportunities; I have seen wealth create disasters.

To manage wealth well and have it create opportunities, you must start with the basics of wealth management. Wealth management starts with defining your "achievable" dreams and then putting together plans to achieve those dreams.

Acquiring and managing wealth requires knowledge, planning, discipline and patience. If you want to skip these four steps, I recommend you buy some lottery tickets. At least with lottery tickets you will find out quickly if your plan is working.

The title of my first paper on wealth management was, *Managing Your Wealth to Fulfill Your Dreams*. The idea came from a friend of mine who 15 years ago received a large inheritance. Today it is all gone! I asked myself why did it happen, what mistakes were made and most importantly, what can we learn from this experience? The last question is the most important. You can't rewrite history but you can learn from it.

Why did it happen?

Reflecting upon this question, I made two observations and came to one conclusion.

This was my first observation. I came to the realization that most people outside our industry find the topic of wealth management either extremely boring or very intimidating, or both.

This was my second observation. The wealth management industry for the most part has made the explanation of wealth management either extremely boring or very intimidating, or both.

These are my opinions from 35 years of industry experience.

Needless to say this has caused a major problem. The wealth management industry has not only failed to meet the needs of the investing public; it has helped compound the problem.

From these two observations, I came to one conclusion. Any discussion of wealth management must be presented using easy to understand terms.

What did I learn from this experience?

I came to the realization that my friend never understood the very basics of wealth management. Remember the saying in the Bible? "*My people are destroyed for lack of knowledge.*" Same principle applies in his case. To manage wealth well and have it create opportunities, I feel you must start with the basics of wealth management. Wealth management starts with defining your "achievable" dreams and then putting together plans to achieve those dreams.

After reading *Managing Your Wealth to Fulfill Your Dreams*, a friend sent me the following note:

Thank you for the chance to read the document, Managing Your Wealth to Fulfill Your Dreams".... I consider myself "investment-challenged" and I tend to hand over any financial document that looks like it will lead to personal frustration and confusion to my husband to read and interpret in words of one syllable. I admit my reaction is totally irrational, but it is mine and I'm stuck with it....

I am pleased to tell you I found the paper very clear, interesting and concise. It is full of commonsense topics that were laid out in layman's terms. Too often good advice is so couched in jargon that the message is lost and therefore useless to those of us who are neophytes in the area of the author's expertise....

Thank you, again, for sending the booklet. It was refreshing to read a financial document that was both informative and practical.

My friend's comments made my day! It confirmed to me that I was on the right track. Of course, some readers are not "investment-challenged" and might find my paper far too simplistic. It is meant to be that way. For those readers, I recommend you think of giving it to someone who might need and enjoy its simplicity.

I have found that stories can sometimes best illustrate a concept I am trying to explain. In her note my friend commented: "For those of us who are investment- or jargon- challenged, the stories can provide a, "I get it" moment."

But before we can manage our wealth we must acquire it. This led me to write my second paper on wealth management, *Acquiring Your Wealth to Fulfill Your Dreams*.

Wealth management is both an art and a science. My observations and recommendations are my personal views based upon my industry experiences. Whether you agree or disagree with my ideas, I hope they will generate discussion, and help you better acquire your wealth to fulfill your dreams.

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Chapter 1: The Role of Parents

Children have never been very good at listening to their elders, but they have never failed to imitate them.

James Baldwin

Outline

- > Parents Being a Good Role Model
- > Parents Being a Good Teacher

1.1 Parents Being a Good Role Model

Children will watch from a very early age how their parents spend their money. If you drive a fancy car, have the best cell phone plan available, go to the best restaurants; all of these decisions will hinder your children from developing a saving attitude. They will adopt the mentality *"Why wait for tomorrow when we can have it today."* And who is to blame? The parents are to blame.

I remember my father telling me when I was a young boy: *"Never order the most expensive item on the menu."* The process of learning how to acquire wealth starts at a very early age and it starts with the parents.

1.2 Parents Being a Good Teacher

The father who does not teach his son his duties is equally guilty with the son who neglects them.

Confucius

Next to establishing the family's values, teaching your children how to manage their finances is extremely important. If children are not taught the basics of finance, they have a very good chance of developing a sense of entitlement. If they are taught properly, they have a very good chance of becoming responsible adults.

In order to help your children learn to manage their finances, it is extremely important to focus on the process rather than the money. Understanding finance involves work, discipline and patience, and most importantly, when it is achieved, there must be a sense of accomplishment. This applies no matter what the age. If you simply give your children money with no responsibility attached, they will learn nothing, except how to ask for more money. One of my favourite sayings is: *"Dreams cost nothing; implementation gets expensive."* Let your children find their dreams and teach them how to implement them.

Here are some ideas how parents can help their children become more responsible in managing their finances:

- > A Good Work Ethic
- > Allowance with a Purpose
- > Good Communication
- > Want Versus Need
- > Teaching through Practice

A Good Work Ethic

My mother-in-law shared with us when our family was young, that our money would provide us with challenges in raising our children. And she was right! Sometimes having money causes more problems than not having money. When I grew up I had a number of different jobs. I worked at a car wash; delivered mail over the Christmas holidays; I had a paper route at the cottage; etc. My parents did not tell me I should work; I just did it. Something has got lost between generations. My children had few, if any jobs as they grew up. Of course, I realize the world has changed. Jobs are not so readily available today as they were in my youth. Having said that, I know there were times when I discouraged my kids from working. To be honest I made it too easy. My advice to parents today: *"Make sure your kids have some skin in the game."* If they need a new skateboard three weeks after Christmas, don't cave in and buy them one. Make them pay for part of it with their Christmas money. If there isn't any, tell them they need to find a job to pay for their share.

A good story to share.

I was doing some grocery shopping one night. It was late and I was being served by a young boy (John) who, turned out, was 16 years old. I asked how late he worked and he told me his shift was almost over. He shared with me he worked 3 four shifts a week to pay for his \$200 hockey sticks. Earlier that day a friend of mine shared with me a story regarding his niece (Janet). She skies competitively and needed two new sets of skis this year (they cost about \$1,000 each). In addition she needed a new helmet. A standard helmet costs about \$200. That wasn't good enough for Janet. She needed the designer helmet which cost about \$500. The parents initially were unwilling to spend the extra \$300, but after days of whining, they caved in.

The lesson learned?

John is learning a valuable lesson in life by paying for his \$200 hockey sticks. He is learning to become a responsible young adult. Janet, on the other hand, is learning a terrible lesson in life. She is developing a sense of entitlement by her parents caving in and buying her the \$500 helmet. Later in life this sense of entitlement will provide her with many challenges. She should have been required to either pay for all or part of the additional \$300 spent, or learn to live with the standard helmet.

It is so important children understand that they are not entitled to an open bank line of credit with their parents.

Allowance with a Purpose

I recommend you give your children an allowance with the understanding it will be split three ways: 1/3 charity, 1/3 savings, 1/3 spending. An allowance must not come automatically; it must result from adding value to the family. This can be a contentious issue. Should you get paid for doing basic chores around the house? The answer is no! You must establish this principle at a very early age and stick with it (despite the occasional verbal abuse). Children are required to perform basic chores around the house. Their allowance does not come from these basic chores.

A good story to share.

Most of the residents in our neighbourhood have professional gardeners to cut the grass and take care of the garden beds. Not at my house. In the early years I cut the lawn and my wife took care of the gardens. When my eldest son reached the age of ten, I told him that it was now his responsibility to cut the grass. This did not go over well with him, or later with his two younger brothers.

The lesson learned?

Not without controversy and occasional arguments, my children were taught the responsibilities that come with living in our house.

Good Communication

Communication plays a very important part in your children's financial education. Make sure you have an open dialogue about money; be willing to be challenged and if need be, be open to change. Don't have an attitude "*It's my way or the highway.*" As they get older, try to partner with them when it comes to certain purchases. For instance, if they want a new iPod, let them know you will pay for half of it (the second half).

Want Versus Need

Make sure your children understand the difference between want and need. When we need something, we usually need it now. When we want something, we usually can wait. Teach them the difference between immediate and delayed gratification. Establish this before the age of five and you will help them avoid so many problems later in life. The only way to teach them is to be consistent in your approach. When we constantly give in to our children's wants at an early age, so as to avoid their displeasure, we are sowing a much bigger problem later in life. And it will be our fault.

Teaching through Practice

Let me share with you, three examples of how I have tried to teach my children how to manage their finances. All three examples follow the same theme of teaching through practice.

In the Early Years

The first example would be when they were very young. On their fifth or sixth birthday, I took them to the local bank and we opened an account in their name. I made on their behalf, the first deposit. It was for five dollars. I told them at the time that at the beginning of each year, we would come back to the bank. The deal was I gave each of them a twenty-five percent bonus on the money they had saved over the previous year. The money was directly deposited into their bank account. Of course early on, the cost was minimal, but somewhere along the line, the kids began to figure out the game, and their contributions began to increase. Some of the money from birthdays, babysitting, odd jobs, etc. was deposited into their bank account. If they took the money out that was netted against what was saved. By age sixteen, each of them had saved close to \$2,000.

In the Teen Years

The second example was a special present I gave them on their sixteenth birthday. It was a cheque for a \$1,000. I told them that the money was theirs and they could do whatever they wanted with it. However, if they deposited it to their investment account, and did not touch it for a year, on their seventeenth birthday, they would get another cheque for a \$1,000. This would happen also for their eighteenth, nineteenth and twentieth birthdays, providing they did not touch the money. It was theirs to take at any time. Once they took all (or some) of the money, the cheques would stop. Once they reached age twenty, no more cheques would be given out. If they left the money intact until their twenty-fifth birthday, I would match whatever was in the account.

In the Early Adult Years

The last example is helping them set up a RRSP. On their eighteenth birthday I recommended it would be a good idea to open an RRSP and I would contribute the first \$1,000. Going forward I offered to match any contributions they wished to make, dollar for dollar. All three of my boys have taken advantage of this program.

Of course RRSP contributions can only be made with earned income. This is why when they reached the age of 12; I began to file tax returns on their behalf claiming any income they may have earned through odd jobs, babysitting, ski instructing, etc. They of course paid no tax, but the earned income began to accumulate. By the time they turned 18, each had several thousand dollars of earned income.

We did not claim the deductions in the year the contribution was made. Since they had very little taxable income, there would have been no advantage in doing so. Rather, we carried forward the contributions to a future year when they have some meaningful taxable income.

My sons learned an important principle when it comes to earning money. To this point in their life, money earned was used to fund short-term needs. Through this plan they learned how the money they earned can be invested to finance long-term dreams. It can never start too early.

In order to help your children acquire wealth, it is extremely important to focus on the process rather than the money. Acquiring wealth involves patience, discipline, and work and most importantly, when it is achieved, there must be a sense of accomplishment. This applies no matter what the age.

Summary

All three examples required creativity, work and teaching on my part. That is the only way I believe you can teach your children how to acquire and save wealth. As my father used to say: *"The only place success comes ahead of work is in the dictionary."*

For young adults reading this I am sure they are thinking that the horse has already left the barn. These examples are great for when you are growing up but unfortunately they don't help now.

Go back to your parents and see if you can put together a plan (or plans) to help you to acquire wealth. Be creative and work with them. You might find their response very encouraging.

Chapter 2: Make the Decision

Acquiring one's wealth is a decision, followed by a plan, implemented by discipline and nurtured with patience. And it takes time. It is that simple.

It involves a decision, early in adult life, to live below one's income. When I speak to graduating high school students, and if they are so fortunate to have their post secondary expenses underwritten by their parents, I urge them to save ten percent of what they are given. If this means getting a job, so be it. My philosophy regarding my kids getting a job while at university has changed. When my kids first went to university I wanted them to enjoy the good life and not have to work. I now encourage them to get a part-time job. I want my kids to have "some skin in the game".

Acquire this philosophy early in life and acquiring your wealth will almost become second nature. Living beyond your means will lead to trouble. Don't go there!

The choice you make is yours and yours alone.

Chapter 3: What Are Your Dreams?

The future belongs to those who believe in the beauty of their dreams.

Eleanor Roosevelt

Outline

- > Student Debt
- > Personal Nest Egg
- > Real Estate
- > Children's Education
- > Philanthropy
- > A Well-Financed Retirement

3.1 Student Debt

I understand that for some students, debt is the only option when it comes to financing their university education. What I don't understand is how some students use these loans as "mad money." They use it to finance travel, buy wide screen TVs, enjoy "adult" beverages at the student pubs, etc. At the end of the day they have the loans and sometimes very little to show for it.

If you borrow to finance your education, fine. Think twice, however, before you borrow to finance your toys and extracurricular activities.

Once the debt is in place, however, it has to be paid off. I recommend it be paid off as quickly as possible. You will need a budget to see realistically what payments can be made and how long it will take to pay off the loan(s). Without a budget and a plan you are living in denial. Sacrifices will have to be made to make the budget work. Living with your parents for the first couple of years post university will provide additional cash flow. Forego the car and travel the better way. Take your lunch to work. There are many other examples you can think of. All of them require your commitment to paying off the debt according to a plan.

3.2 Personal Nest Egg

I feel it is important that young adults begin to take responsibility for their affairs. It is important they become independent in choosing their careers, managing their finances, establishing their values, etc.

Starting a personal nest egg is an important step in this process.

Here are some guidelines for establishing your “first” personal nest egg:

- > Keep it simple
- > Make it achievable
- > Make sure there is a sense of accomplishment
- > Practice discipline
- > Nurture it with patience

With the right attitude, you will learn so much from the journey in reaching the destination. The only place money comes ahead of work is in the dictionary. Of course inheritance and lottery comes ahead of money in the dictionary, but you won't learn much from either of those outcomes.

Acquiring wealth requires knowledge, planning, discipline and patience.

In 2009, the Canadian government introduced a program called the Tax Free Savings Account (TFSA). Every Canadian 18 years and older can contribute annually \$5,000 to their plan. All money earned in the plan is tax free. The money can be withdrawn tax free at any time.

It is a wonderful gift from the government. A \$5,000 investment, reinvested at 4% annual return, will grow to \$11,000 in 20 years (at 8% it would grow to \$23,000).

I find the TSFA a wonderful instrument to teach young adults the basics of wealth management.

- > It is simple to understand
- > It is simple to manage
- > It provides a sense of accomplishment
- > It is cashable at any time

3.3 Real Estate

Most Canadians dream of owning their own home (currently 68% have accomplished this dream).

Like most university graduates I soon moved out of my parent's home and rented an apartment. Renting is easier than owning in my opinion. The costs are defined and for the most part there are no maintenance duties (cutting the grass, shoveling the snow, maintaining the building, etc.).

There is a cost though. Your monthly payments go 100% to your landlord. Once paid, your rent money is gone.

When you can afford it financially, give some thought to buying rather than renting. This decision involves more than just finances; it involves a commitment of time and energy. At this point in your life you usually have time and energy but you are a little light on money.

Buy a residence that requires some time and energy. It may be “a handy man’s project” or a multiplex residence where you live in one unit and rent out the other unit(s).

In my case, I bought a cottage in Muskoka several years before I was married. It was a dump but located on a fabulous piece of land. Forty years later it has become an important part of our family. A weekend at “the cottage” – priceless.

3.4 Children’s Education

For those blessed to have children, I feel strongly that providing for their education is one of the top priorities parents must have. Providing for your children’s education should start the day they are born (it did in our case).

The Canadian government has recognized this need. In the late 1990s a program was started called the Registered Educational Savings Plan (RESP). Without getting into all the details, parents (or grandparents) are encouraged to contribute to the children’s education. The first \$2,500 contributed receives a \$500 grant from the Canadian government. This can happen for the first 17 years of the child’s life. Get your parents involved. They will have a soft spot in their hearts (and wallets) for their grandchildren. Believe me.

Consult a professional to make sure the plan is set up properly.

I also recommend you set aside funds early in your child’s life to provide for their education later in life. The fees at most private schools run in excess of \$20,000 per year, which may be a non-starter. Camps, tutoring and extracurricular activities are expensive and yet provide tremendous long-term benefits.

3.5 Philanthropy

Many people, especially those so fortunate to be living in a country like Canada, have come to realize the importance of giving back to society. This is a lesson you want to teach your children at an early age.

A good story to share.

A friend of mine's daughter recently celebrated her eighth birthday. The normal routine was to invite fifteen friends to her birthday party. Each friend's parents would buy a present for about twenty dollars. Presents were eagerly opened at the party but a couple of weeks later most were in the closet and seldom looked at again.

Their daughter suggested they do something different this year. Fifteen invites were sent out with the request that each child not buy a gift but rather bring twenty dollars to the party. Their daughter wanted the money to go to the *Make a Wish Foundation*. Each parent got a tax receipt for their gift and the kids saw how their generosity could help others.

The lesson learned?

Philanthropy should start early in life.

Another idea a friend shared with me is they give their children \$100 each Christmas. The money is to be donated to a charity chosen by the children. The children must research their charity and present their findings to the family for final approval.

There are many other examples I could use. The point here is to establish early with your children how fortunate they are and why they have a responsibility to help others who are not so fortunate. A tremendous side benefit is how it will bring your family closer together.

A friend of mine recently shared with me his philosophy regarding philanthropy. *"I don't want to be remembered for how I made my money; rather I want to be remembered for how I gave it away."* You can't say it much better.

3.6 A Well-Financed Retirement

For young adults this may seem like a goal too far down the road. My recommendation is to start early. Set up a plan. Start with a small amount so you can begin to understand the process. At this stage, the knowledge learned from the journey is far more important than focusing on the destination.

A well-financed retirement requires knowledge, planning, discipline and patience. There are no quick fixes. It will require some near term pain (reduced consumption) for long-term gain. For instance, the Canadian government introduced a program called the Tax Free Savings Account (TFSA). Every Canadian 18 years and older can contribute annually \$5,000 to their plan. It is a wonderful gift from the government. A \$5,000 investment, reinvested at 4% annual return, will grow to \$11,000 in 20 years (at 8% it would grow to \$23,000). And that is tax free!

Let's look at consuming today versus saving for tomorrow.

A good story to share.

A friend of mine's son recently graduated with a Bachelor of Commerce degree. He was fortunate to land an exciting and well-paying job with an investment banking firm. He decided he needed a car and between a small inheritance and a bank loan, he bought a brand new Porsche for about \$50,000. Over his lifetime that car is going to cost him a fortune.

Let's look at the cost. Let's say he decided to buy a slightly used Honda Accord for \$15,000 instead. The \$35,000 is invested earning a conservative annual rate of return of 4% over the next 20 years. In 20 years that \$35,000 would grow to \$77,000 (at 8% it would grow to \$165,000) and the Porsche would be long gone!

The lesson learned?

Take your time when you buy your toys in life. They can end costing you more than you think!

Retirees are going to be in for a rude shock when they find out what capital is required to finance their retirement. The reality is interest rates are at historical lows (cash earns almost zero today) and stock markets are extremely volatile. To prudently finance a very conservative \$60,000 lifestyle, one would need about \$1,500,000 in financial assets (this assumes no pension and does not include real estate). The math is simple and sobering. \$1,500,000 earning a 4% return generates \$60,000 before tax. In today's investment world this is what a balanced fund would conservatively earn. The days of ten percent "automatic" investment returns are behind us, at least for the foreseeable future.

Chapter 4: Take Control

When you know a thing; to hold you know it; and when you don't know a thing to allow that you don't know it – that is knowledge.

Confucius

Outline

- > Select a Trusted Advisor
- > Organize Your Finances

4.1 Select a Trusted Advisor

When you know a thing, to hold you know it; and when you do not know a thing to allow that you do not know it – this is knowledge.

Confucius

It is important to understand what you know and more importantly what you don't know. Once you have realized what you don't know, you have three options:

- > Ignore the issue
- > Educate yourself about the issue
- > Seek outside counsel regarding the issue

Clearly the first option solves nothing and can cause big problems down the road. If you don't want to spend the time required to learn about wealth management, I recommend selecting a trusted advisor. A trusted advisor is not the person or the organization who manages your wealth. It is someone you can trust who understands wealth management, is unbiased, hopefully has some personal experience they can share with you and most importantly can be trusted to keep the information discussed confidential. Ideally it is a family member or a good friend you can trust.

If neither one of these is available, I recommend retaining a fee-for-service financial planner. A planner, through discussion with you, will put together a financial plan including how the money should be managed. They will provide investment options and will recommend you select the option you are most comfortable with. It is important to note that a fee for service planner receives no compensation from the investment providers you select.

In my personal walk outside of work, I find it amazing how few people ask knowledgeable family members for advice. Of course, I am sensitive to the fact that many people do not want to share their finances with others, especially family members. However, there can be a cost in taking this route. I recommend you

review your options carefully. Avoid, if possible, building a wall of secrecy around your money.

Seek out someone you trust.

A personal story to share.

Late in the summer of 2000, I dropped by my parents' cottage for a visit. Mom was out, so dad made some coffee and we sat down to talk. Out of the blue, my father asked me to take a look at the family investment portfolio. I knew my father was hesitant to talk about this with his children due to his concern that it might lead to problems. He wanted his children to make it on their own; any inheritance would be years down the road and he did not want them to focus on it now. Dad managed his own investments and had done an excellent job. It was a blue chip portfolio consisting of bank, pipeline and utility stocks, and, oh yes, Nortel. Nortel was in the portfolio because of the Bell Canada holding. In 2000, Bell Canada paid out as a dividend the Nortel shares it held.

Now many investors owned Bell Canada because it paid a good dividend and was viewed as a "widows and orphan" stock. Nortel, on the other hand, paid no dividend and was viewed as one of the top five growth stocks in the world. The price of the stock exploded between 1998 and 2000, rising from \$15 to almost \$125. With this type of return came risk, which most investors were unaware of.

After looking at the portfolio, my father asked me what I thought. I immediately told him the Nortel holding was far too high, as it represented in excess of twenty percent of the portfolio. A quick discussion took place, and we agreed to sell half the position as soon as possible. While Nortel represented over thirty percent of the Canadian stock market at the time, many investment managers, including my firm, decided to adopt a cap ten benchmark. Simply put, the maximum holding of any one stock could be no more than ten percent of the Canadian equity holdings. My analysis and recommendation was based upon this simple principle.

There was good news and bad news. The good news was my dad sold fifty percent of the shares for about \$100. The bad news was he kept the other half.

The lesson learned?

By sharing his financial affairs with me, dad avoided a major disaster. In dad's case there was a trade off in his course of action; revealing the value of the portfolio with his son versus getting sound advice from a trusted advisor.

4.2 Organize Your Finances

The three steps necessary to organize your finances are the following:

- > Prepare a Budget
- > Itemize All Assets and Liabilities

Prepare a Budget

Benjamin Franklin put it succinctly: *"Beware of the little expenses; a small leak will sink a great ship."*

Tongue in cheek, I say preparing a budget is like going to the gym to stay in shape – not much fun but it can help avoid big trouble down the road. Most people do not prepare a budget, and of the limited number that do, most do not have the discipline to follow it. At least they don't until the money runs out!

Most working people use their T4 as their budget. As long as money in is close to money out, life muddles along. I would argue that procrastination is the main reason why working people don't have a budget. Reality quickly sets in when there isn't a T4. Even then people don't want to face reality. In either case, get over it. Take the time to not only sit down and prepare a budget, but discuss it with your spouse and, if need be, your family.

A personal story to share.

Several years ago, I put together a budget and realized that some of our expenses should be modestly reduced.

I informed my three sons at university that their budgets would be modestly cut next term. At the same time I reduced the monthly deposit to our joint checking account. My wife uses this account to manage some of the household expenses. Unfortunately I did not discuss this with my wife. The mistake was revealed when she confronted me with it. It was maybe the right plan, but with very poor execution.

The lesson learned?

There is no point constructing a budget on its own. A budget must be discussed, planned, and most importantly bought into by all parties involved.

Itemize All Assets and Liabilities

I personally started this process 25 years ago. At the end of every year I do a thorough review of all our (my wife's and mine) assets and liabilities. I start by listing the assets and liabilities as either liquid or illiquid. Within the liquid assets I break them down into cash, bonds and equities as well as the cash surrender values of our whole life insurance policies. Within the illiquid assets I include our RRSPs, long-term investments and real estate. I do the same for our liabilities, short-term and long-term (i.e., bank lines of credit and mortgages).

This provides a true picture of our net worth and liquidity.

Lastly, I record each year in a summary file. I have a line in the spread sheet which lists the after-tax value of all our investments (it does not include real estate). I assume these assets will earn a 4% rate of return. I recommend you do this at least every three years.

As I mentioned earlier, 4% is a good proxy for the cash flow your investments can provide without compromising the capital involved. To withdraw in excess of 4% may not be a problem in the near-term but it can cause problems in the long-term.

Chapter 5: Create Your Plans

A dream without a plan will remain but a dream.

Robert Livingston

Outline

While it is important to establish your dreams, you must then create plans to acquire the wealth to fulfill the dream. Each dream must have a plan. Sounds pretty simple? It is! The plans once created, must be managed with discipline and nurtured by patience.

I strongly suggest the plan be put in writing. By putting your dreams and plans in writing, you accomplish the following:

- > It requires you to ask yourself some tough questions requiring honest answers
- > It allows you to flush out your values
- > It provides a benchmark by which you can measure whether the plan is working
- > It provides clarity and accountability
- > It provides a document which you can share with those involved

A good plan must include the following:

- > Desired Result
- > Structure
- > An Executive Summary
- > Sample Executive Summary

5.1 Desired Result

The desired result or purpose of the plan is to accomplish the dream. It is no more complicated than that.

While it is important to focus on the desired result or the "destination", there are other benefits that come from the "journey." Some of these benefits would include the following:

- > It might be a learning experience
- > It might result in better communication between participants
- > It might help develop a sense of responsibility
- > It might help avoid a sense of entitlement
- > It might be fun!

In many cases the lessons learned from the journey are more important than the destination, or the desired result. It is so important to have realistic expectations as

you put the plans in place to carry out your dreams. I recommend you start slowly with your dreams and plans.

5.2 Structure

Here are some guidelines for a well structured plan:

- > Who Is Managing It?
- > Resources Needed
- > Keep It Simple

Who Is Managing It?

Depending upon the complexity of the dream and the subsequent plan needed will determine whether you do it yourself or seek professional advice. In the story I shared about opening bank accounts for my children, clearly most of us can do that ourselves. When it comes to managing a RESP to fund our children's post secondary education, many people should seek professional advice.

Managing Your Wealth to Fulfill Your Dreams examines in detail the different investment options available.

A good story to share.

A friend of mine decided to open a RESP for his three children. Over time the amount in the plan accumulated to over \$75,000. He decided to manage it himself. Initially he bought bonds as he viewed the RESP should be managed very conservatively. As he became more comfortable with the markets, he became more aggressive, ultimately investing the majority of the portfolio in technology stocks. When the market crashed in early 2000, the portfolio declined by almost 60%.

The lesson learned?

I believe my friend made a fundamental mistake in investment management. It is so important to try to match the asset with the liability. In this case the liability was the children's education. The asset was the money in the plan. My friend took far too much risk given the nature of the liability. In my case I invested our RESP in a balanced mutual fund until my eldest son was 16 years old. At that time I began to move some of the money into money market in anticipation of funding university expenses.

I see too often people treating their RRSPs, TFSAs and RESPs as "mad money", where they take far too much risk given the purpose of the money invested. This is where my friend needed to consult with his investment advisor.

Resources Needed

To implement a plan costs money. The most common mistake I have seen is to underestimate the costs involved to carry out the plan to fulfill the dream. This is usually because the dream is unrealistic.

For instance, if one of your dreams is to provide a post secondary education for your children, the RESP is a wonderful vehicle to help fulfill this dream. But it cost money. Before you set up a plan take the time to put together a budget to determine how much each year you can contribute. If there is a shortfall (and in most young families there is), determine if there are other family members (i.e., grandparents) who you can ask for their support.

The RESP allows contributions for the first seventeen years of a child's life. If you can't afford the maximum contribution of \$5,000 per child per year, don't be discouraged. Start with a small amount, and if over time you can afford to contribute more, do it. Starting the process should be the desired result; not the actual amount contributed.

Keep It Simple

Most plans fail because they are too complicated. Any plan requires discipline, patience and time. If you make a plan too complicated, you may run out of discipline, patience and time.

I have found through experience that once you have identified the critical issue, a simple plan works out best. Too often people miss the critical issue and develop complicated plans. Remember the saying? "You can't see the forest for the trees."

5.3 An Executive Summary

A good idea is to write down an executive summary for each dream and plan. The executive summary should include the following:

- > The Dream
- > The Plan
- > The Desired Result

The Dream

The dream should be stated clearly and remember it must be realistic.

The Plan

It is very important to make sure the plan is simple, realistic and achievable. Stating the obvious, the object of the plan is to fulfill the dream. Don't write a treatise that you can't possibly follow or implement.

The Desired Result

Each plan should have a clearly stated result which measures whether the dream has been fulfilled. In many cases the lessons learned from the journey are more important than the destination, or the desired result.

5.4 Sample Executive Summary

In Chapter 1, I shared how I taught my young children how to save. Here is what my executive summary for this initiative would look like.

The Dream

The dream was to teach my children at a young age how to save money.

The Plan

I opened bank accounts for each of them when they were five or six years old. This was a hands on process where I took each of my sons to our local bank. For approximately the following ten years, in early January, we went to the bank. At that time I gave each of them a twenty-five percent bonus on the money they had saved over the previous year. The money was directly deposited into their bank account. I stopped doing this when they turned 16 (my decision, not theirs!).

The Desired Result

The desired result was to teach the boys how to save money. In each case, by the time the boys turned 16, they had saved approximately \$2,000.

The benefits from the journey in achieving the desired result included the following:

- > Learned how to budget
- > Learned the difference between need versus want
- > Became financially responsible
- > Established a good work ethic
- > Established self-confidence in themselves

Chapter 6: Common Mistakes

The choices we make are ultimately our responsibility.

Eleanor Roosevelt

Outline

- > Procrastination
- > No Trusted Advisor
- > Too Much Debt
- > No Dreams / No Plans
- > Wealth Becomes Our Idol

6.1 Procrastination

The most common mistake I see when it comes to wealth management starts at ground zero. They never make the decision, the commitment, to take personal responsibility for their finances. Those that do make the decision are unwilling to make the needed commitment of discipline and patience.

6.2 No Trusted Advisor

It is important to understand what you know and more importantly what you don't know. For those not familiar with the investment industry, I recommend selecting a trusted advisor, someone you can trust who understands the investment industry, is unbiased and can be trusted to keep the information discussed confidential.

I find it amazing how few people ask knowledgeable family members for advice. Of course, I am sensitive to the fact that many people do not want to share their finances with others, especially family members. There can be a cost in taking this route. I recommend you review your options carefully. Avoid, if possible, building a wall of secrecy around your money.

6.3 Too Much Debt

It is our natural tendency in life to want things now rather than waiting to acquire them at a later date. To do this, we either have to win a lottery or acquire debt. I am not against using debt to acquire assets but it should be used judiciously to acquire long-term assets. It should not be used to finance current needs such as travel, clothes and entertainment. A high percentage of Canadians back themselves into the position of acquiring permanent credit card debt. At the rates the credit card companies charge for overdue payments, one should be very careful and avoid this trap.

When one decides to buy a house and finance the majority of it with a mortgage, take the time to understand what is involved. Do not borrow to your limit – allow yourself some wiggle room.

6.4 No Dreams / No Plans

I can't emphasize enough that many people bypass defining their dreams and jump right into spending their acquired wealth. To get the most out of your hard earned income you must start with defining your "achievable" dreams.

The only thing worse than no plan, is a plan without the commitment. A plan without the commitment causes us to live a life of false security and in denial. Ultimately all this accomplishes is frustration and waste.

6.5 Wealth Becomes Our Idol

It is so important to remember that money is meant to be a means to an end, not an end in itself. When we allow it to dominate our thinking, our values and our lives, it becomes our idol. Needless to say, don't go there.

Chapter 7: Recommendations

Success is doing ordinary things extraordinarily well.

Jim Rohn

Outline

- > Define Your Dreams
- > Select a Trusted Advisor
- > Develop Your Plans
- > Watch Your Expenses
- > Enjoy Life

7.1 Define Your Dreams

I have outlined what I feel are the most common dreams that I have come across over the years. I would add they should be “achievable”. Sometimes people have unrealistic dreams, especially when it comes to financing them. Understand what is realistic and equally important what is unrealistic.

Spouses must communicate between themselves and their family about their dreams. What do they want to accomplish with their hard-earned money? Money is meant to be a means to an end, not an end in itself.

7.2 Select a Trusted Advisor

It is important to understand what you know and more importantly what you don't know. For those not familiar with the investment industry, I recommend selecting a trusted advisor, someone you can trust who understands the investment industry, is unbiased, and hopefully can be trusted to keep the information discussed confidential.

I mentioned this before but I find it amazing how few people ask knowledgeable family members for advice. Of course, I am sensitive to the fact that many people do not want to share their finances with others, especially family members. As I showed in the story involving my father and his Nortel holding, there can be a cost in taking this route. I recommend you review your options carefully. Avoid, if possible, building a wall of secrecy around your money.

7.3 Develop Your Plans

"A dream without a plan will remain but a dream." So true.

Each dream should have a plan. Doing it yourself can make it more difficult to develop and execute your plans.

Choosing an advisor greatly facilitates putting plans in place to execute your dreams with one important caveat – there must be an ongoing discussion with your advisor regarding your dreams and plans. It is important to sit down at least once a year to review both and fine tune any changes that need to be made.

7.4 Watch Your Expenses

Of all the issues concerning wealth management this is the easiest one to understand and one of the most difficult to execute. Managing your expenses is your responsibility and no one else's. You can't blame others when your expenses get out of control. If you are not careful with your expenses you run the risk of encroaching upon your capital which can't be replaced.

An honest and competent advisor's role is to let the client know when their withdrawal rate crosses the line and begins to eat into capital. In a way they are like a doctor. They analyze your situation and give you a financial prescription. It is up to the client to deal with it.

7.5 Enjoy Life

I feel if we allow our wealth to become our master, it is one of the most dangerous mistakes we can make. We must remember, our wealth is meant to be a means to an end, not an end in itself. When our wealth becomes our master, it becomes our idol. When it becomes our idol; it will cause us to begin compromising our values; integrity, patience, and self-control to mention a few. When we begin to compromise our values, our plans begin to break down. And lastly, when our plans break down, our dreams begin to disappear. Both personally and professionally, I have seen this process destroy relationships, tragically in many cases. Families will become torn apart and friendships will be lost. Our Midas touch will turn into our Midas curse. The sad thing is once this process begins, it can be very difficult to reverse. And it will never lead to happiness and fulfillment because lest we forget; you can't take your wealth with you.

Taking the time to establish our dreams and the planning, discipline and patience required to bring them to fruition, will all be for naught.

Needless to say, don't go there.

Rather I recommend you take this route. Establish your dreams, put the plans in place to carry them out, maintain your discipline and enjoy life. While the plans may have to adapt to changing conditions, never forget your dreams. It is that simple.

Chapter 8: A Café Latte

Beware of the little expenses; a small leak will sink a great ship.

Benjamin Franklin

When it comes to managing my finances, it all seems so simple to me. Establish your dreams; take control of your personal situation; put plans in place; execute them with discipline; and lastly nurture them with patience. If it is that simple, why do many people have trouble with it? Many people want to acquire wealth but they can't seem to do it.

I asked myself why? Why have I been so blessed with this skill and others are not?

I made two observations and came to one conclusion.

This was my first observation. I believe one of the reasons I have been able to properly manage my finances is the role my parents, especially my father, played in helping me develop this skill. Of course, I realize I have been fortunate to be in the right place at the right time but it is more than just that. I have seen many people in my industry be in the right place, at the right time with the wrong result. They were fortunate to have jobs that paid them extremely well and yet many years later they have little to show for it.

I believe my parents were not only good role models, but were also good teachers in my learning how to manage my finances. I believe parents have to do both well if their children are to acquire this skill. What is the point of being a good role model if you don't teach it? And who wants to be taught by someone who is not walking the talk?

This was my second observation. There are many people who were not blessed to have parents who imparted this skill to them. Their parents may have been good role models, i.e., they managed their wealth well, but they did not teach their children the skill. They may have tried to teach their children the skill, but they didn't walk the talk. And lastly, maybe they failed on both counts.

From my experience people with poor financial skills make some of the following mistakes:

- > Their dreams are unrealistic
- > If they make plans, they are far too complicated
- > They fail to practice discipline and patience
- > They believe it is beyond them
- > They want a quick fix
- > They blame others
- > They give up

From these two observations, I came to one conclusion. Many people, while adults on the outside, are still children on the inside when it comes to managing their finances.

People ask John Maxell, author of over fifty books, where should one start if they want to write a book? His answer is so simple. "*One word, followed by another, and then another.*" When you think about it, where else would you start?

In some ways, acquiring the skills to manage your finances are the same. You must walk before you run. Start with a simple dream. Put together a simple plan. Practice discipline, nurture it with patience and you are on your way. By starting with something simple you will begin to learn the basic skills of wealth management. Success will lead to confidence. Confidence will lead to new dreams. And lastly, new dreams will lead to more successes.

A good story to share.

A friend of mine's daughter loves her café latte. Twice a day, early in the morning on the way to work and after dinner, she buys a café latte which cost about five dollars. That's ten dollars a day, five days a week. I suggested to her that she cut back to one a day and use the money saved to open a TFSA. She decided to give it a try. She made the decision. Every three months she invests the money saved, \$325, in her TFSA. Assuming a 4% tax free return, in 20 years her plan will grow to \$40,000.

The lesson learned?

My friend's daughter learned a valuable lesson in managing her finances. By making the decision and starting with something simple and manageable, she began learning how to manage her finances. She used the tools of knowledge, planning, discipline and patience. In case we forget, you need all four of these tools. I feel if she sticks to her plan, it will ultimately lead to a: "I can do it too" mentality.

And remember it all started with one café latte.

About the Author



Bob Livingston is a senior vice-president with McLean Budden in Toronto involved in their private client wealth management practice, managing portfolios for individual investors. Bob has spent over 35 years on Bay Street, both on the sell-side and buy-side.

In his current role, Bob has made many presentations on wealth management. In early 2008, Bob became involved in presenting to high school graduates, university students and young business people. Bob's presentations focus on the importance of personal growth and draw upon Bob's experiences as well as material written by John Maxwell, Jim Rohn, Stephen Covey and others. These gentlemen are leaders in the field of personal growth.

In early 2009 Bob began to write papers on his presentations and to date has written about a dozen papers on wealth management and personal growth.

When asked why he does it, Bob's answer is simple. "It expands my comfort zone, it gives me a way of giving back to the community, and most importantly, I am having fun doing it."

Articles Written

Wealth Management

It Starts With a Decision

Taking control of one's finances is a decision, followed by a plan, implemented by discipline and nurtured by patience. And it takes time. It is that simple. Bob discusses wealth management at the 101 level. He concludes with the simple example of how giving up a café latte a day for 20 years can turn into \$55,000.

Acquiring Your Wealth to Fulfill Your Dreams

Acquiring your wealth starts with defining your dreams, followed by taking control of your personal situation and then creating plans to fulfill the dreams. The plans must be executed with discipline and nurtured with patience. Bob discusses some of the common mistakes and concludes with five recommendations.

Managing Your Wealth to Fulfill Your Dreams

Managing your wealth starts with defining your dreams, followed by taking control of your personal situation and then creating plans to fulfill the dreams. The plans must be executed with discipline and nurtured with patience. Bob discusses some of the common mistakes and concludes with five recommendations.

Giving Away Your Wealth to Fulfill Your Dreams

Giving away your wealth starts with defining your dreams. As we approach the end of our life, assuming there is a well financed retirement in place, the only two options for our wealth is to leave it to our family or the community we live in. Bob discusses the difference between success and significance regarding wealth management. Success is about how we acquire and manage our wealth. Significance is how we give it away. Planning plays an extremely important part in this process.

Personal Growth

13:22

Bob discusses the important role grandparents play in being a mentor for their grandchildren. He discusses the importance of preparing a personal mission statement or what he calls "a blueprint for life." Grandparents who are: "a little bit parent, a little bit teacher, and a little bit best friend" can be so helpful in these roles.

A Tale of Two Cities

Bob discusses the two different cities children can end up in: a city called *Responsibility* and a city called *Entitlement*. He discusses the important role parents play in which city their children choose. He provides some recommendations on how parents can better raise their children to become responsible adults and avoid becoming an entitled one. And when children ask for their first cell phone, take a look at chapter 6.

A New Day Has Come

Bob has come to realize the importance of preparing a personal mission statement. A personal mission statement discusses who you are: your core philosophies, your core values; your skills; your likes and dislikes; and what makes you unique. He outlines the necessary steps to put one together and shares his own.

The End of the Beginning

Bob discusses some of the changes he has seen take place in the education system over the last 35 years. Marks are still important, but in today's world, more than marks are required. He strongly believes personal growth has become a very important part of the process and most students have not been taught it. Unlike his generation, plans and better communication are needed to have success in today's environment.

Shift Happens

Bob discusses some of the changes he has seen take place in the education system in the last 35 years. He shares with the reader his experiences as a parent: what he did right, what he would do differently; as his children headed off to university. He concludes with some recommendations for parents to help their children in this next and very important phase in their life.

Discover Your Passion

Bob starts off with the premise that you want to find a job (if possible) that you are passionate about. He talks about the benefits, the roadblocks and the risks of finding that kind of job. He concludes with some recommendations on how to enhance your personal growth: establish your personal values and develop your personal skills. A must read for young adults.

The Times They Are A-Changin'

Bob discusses his 35 years on Bay Street: his career path, his experiences, and the lessons he learned. He discusses the changing environment in the job market: "the low hanging fruit is either gone or has been relocated." He concludes with some recommendations to help the reader get started.

Three Coins from the Fountain

Bob contemplates if he could go back 35 years and start his career all over again, what three core philosophies would he take back with him? He uses the analogy that there are coins of knowledge called Wisdom and Ignorance in the Trevi Foundation made famous in the 1954 movie *Three Coins in the Fountain*. What three coins of Wisdom would he select from the Fountain? What coin of Ignorance would he avoid? What has been Bob's biggest challenge in his career?

Contact Information

Robert Livingston
Direct Tel +1 416 361 2251
Email blivingston@mcleanbudden.com

McLean Budden
145 King Street West, 25th Floor
Toronto, ON, Canada, M5H 1J8

Investment Managers Since 1947
www.mcleanbudden.com

