



# Managing Your Wealth To Fulfill Your Dreams

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

Eleanor Roosevelt

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." In order to respect client confidentiality, I have created Cathy Brown, a portfolio manager with a hypothetical firm, High Point Capital.

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 manage your wealth to fulfill your dreams.

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# Chapter 1: What Are Your Dreams?

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

Eleanor Roosevelt

## Outline

- > A Well-Financed Retirement
- > Generational Transfer of Wealth
- > Philanthropy

### 1.1 A Well-Financed Retirement

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 earn. The days of ten percent investment returns are behind us, at least for the foreseeable future.

To "juice" investment returns one needs to take more risk. Unfortunately most retirees cannot afford to take the risk. The only other option they have and the only one they can control is to better manage their expenses. People don't like to hear this but this is reality. In today's economic environment it is all about cash flow. The days of using your assets, particularly your house, to help finance your cash flow deficiency are for the most part behind us. Home owners in the United States used their homes as an ATM. Those days are definitely gone, perhaps for a generation.

### 1.2 Generational Transfer of Wealth

For those who have families (and even some that don't), the generational transfer of wealth is high on their dream list.

An ancient Chinese proverb states, "Wealth never survives three generations." A century ago the Americans updated it to read, "From shirtsleeves to shirtsleeves in three generations."

Why does this happen? In my opinion the greatest mistake families make is that they focus on the money, not on the process. It is important to learn and actively pass on their values, rather than merely focusing on passing on their valuables.

Midas can come in two flavours: the Midas touch and the Midas curse. The Midas curse happens when money is passed on to heirs who are ill-prepared to receive it. In some cases it can destroy a family.

So while it is important to manage some of our wealth for the next generation, we must remember the importance of teaching them the process.

### 1.3 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. And giving back is not only confined to money; it also includes something more precious than money – their time.

When making a significant donation the following guidelines should be followed:

- > Consult with family members regarding the proposed donation
- > Determine the amount to be given and the time frame for the donation
- > Get the family involved with the charity so as to understand better the importance of the donation. This may also bring the family closer together

A personal story to share.

A friend of the family recently decided to make a substantial donation to a school where some of her grandchildren had gone. Her late husband felt strongly that the school should become involved in a local outreach program. A family meeting was held, and the decision was made to set up an endowment fund to fund such a program. The endowment was funded over four years and will generate sufficient funds each year to bus children from the inner city to the private school.

The lesson learned?

Everybody wins! The kids at both schools become involved in a program that teaches them some basic values in life. The family also wins. Three generations can better see how their money helps others and in the process they became better united as a family.

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.

## Chapter 2: 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

When it comes to managing your wealth, there is an extremely important point to remember. It is your money and at the end of the day only you are responsible for how it is managed. “The how” I am referring to is the process, not the actual investments bought and sold. In the chapter, *Investment Management*, I will outline the different approaches one can use to manage one’s wealth.

The choice you make is yours and yours alone.

### 2.1 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 – that 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.

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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.

## 2.2 Organize Your Finances

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

- > Prepare a Budget
- > Itemize All Assets and Liabilities
- > Prepare a Drop Dead Package

### 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.

### **Prepare a Drop Dead Package**

I know this recommendation probably sounds very macabre. That is not my intention. Too often I have seen, both personally and professionally, confusion occur when someone passes away. There has been inadequate and in most cases no documentation prepared to deal with the ongoing management of the finances. I am not talking about a will but rather the day-to-day financial management.

Starting five years ago, I put together a drop dead package for my wife. If something happened to me today, all the necessary financial information is included in the package.

My drop dead package includes the following:

### **Basic Information**

- > Copy of our will
- > Contact names

### **Financial Information**

- > Estate valuation
- > Portfolio valuation
- > Account numbers for all the family's investment accounts
- > Insurance (both life and property)
- > Investments

### **Miscellaneous**

- > House information (taxes, hydro, gas, etc., account numbers)
- > Basic information regarding myself (SIN, credit cards)

Of course, every situation will be different. Once the information has been put together (I recommend this be done annually), it is extremely important for the parties involved to discuss it. Once I put together our package, my wife and I sit down to go over it. She then takes the package and puts in a safe place. I hope she never has to use it for a long time.

It also would be a good idea to sit down with your executors to discuss it. Personally, I have not done this yet. It is on my to do list.

A personal story to share.

In the spring of 2007 my father was diagnosed with terminal cancer. Later in the summer he passed away from this terrible disease. In the last two months of his life he was putting together his "drop dead package." My father was an extremely well organized person and spent his entire career in the investment industry and yet only near the end did he realize he better put together this necessary document.

The lesson learned?

Of course, I am not sharing this story to judge my father, but rather to point out how a knowledgeable, organized and most importantly caring person, almost failed to put together this important document.

### **Summary**

Of course, some people will be very intimidated by the work necessary to prepare these three documents. If this is the case, seek out help, either from family members, friends or a fee for service financial planner to help put them together. It is well worth the effort and time required.

## Chapter 3: 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

### 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.

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.

## Chapter 4: Investment Management

*The choices we make are ultimately our responsibility.*

Eleanor Roosevelt

### Outline

- > Investment Options
- > Cost
- > Performance

### 4.1 Investment Options

There are three basic methods to manage your wealth:

- > Doing It Yourself
- > A Full Service Broker
- > An Investment Counselor

Of course being an investment counselor, I have a natural bias in recommending the third option versus the first two. For some clients, however, one of the first two options might best suit their needs.

### Doing it Yourself

The common mistakes when you do it yourself are the following:

- > Not spending enough time is spent monitoring the portfolio
- > The lack of risk controls
- > The temptation is to invest in the "flavour of the day"
- > "Getting married" to your holdings
- > Not measuring your performance

It has been shown the average Canadian spends less than an hour each year reviewing their investments. Managing your investments is not a full time job but it definitely requires more than a cursory glance when it suits you. Selecting your asset mix, investing in stocks, bonds, preferreds, etc. all require basic research. Firing the dart against the wall may work some of the time, but over the long-term it is fraught with huge risk.

Another common mistake the do-it-yourselfer make is lack of any (or few) risk controls in managing their assets. When I first began to manage clients' portfolios a decade ago, I was a big proponent of a balanced approach. This involved investing in "boring" bonds. A colleague of mine always used to say: "*boring is beautiful.*" In 2008 bonds were not only beautiful they were great!

The “cocktail circuit” can lead to the mistake of investing in the current flavour of the day. Many stories from the tech bubble and more recently the equity bubble can be told. Rolling the dice on an up-and-coming “concept” stock provides few winners (but you will hear about them) and many losers (most of which you don’t hear about).

Investors can become married to their holdings, especially stock holdings. They almost become members of the family. “How could I sell ABC – it’s been in my family for years” is something I often hear. Ask anybody who owned Nortel. Many investors did not appreciate the risk in owning Nortel and billions of dollars were lost.

Lastly, the do-it-yourselfer for the most part does not measure how their portfolio has performed in absolute terms and in the context of the risk taken. This must be done.

### **Full Service Broker**

Retaining a full-service broker allows the client to some extent to become involved in the investment process. If this is an objective, then retaining a full service broker may be the best solution.

Accessibility is also an important issue to be considered. Many full-service brokers have offices in communities where investment counselors are not located. If frequent personal contact is important to you, choose a full service broker.

### **Investment Counselor**

Most investment counselors are structured in the following manner. There is a group of portfolio managers who are primarily responsible for research. Another group of portfolio managers is primarily responsible for client service.

The research group is also responsible for constructing the fixed income and equity models. They decide what stocks (or bonds) are bought and sold.

The client service group is responsible for interfacing between this group and the firm’s clients. They help the client determine their investment policy statement (I call it the contract of risk) and meet with them regularly to keep them up-to-date on their investments.

Our industry sometimes makes things too complicated for what I consider a simple business. Our business is performance, fees and service with a wrap-around of trust. Performance and trust are critical to maintaining clients over the long-term. If either is compromised, the business is in deep trouble. For the most part, the research group is responsible for maintaining performance and the client service group is responsible for maintaining trust.

## **4.2 Cost**

I find it amazing how most people don't know what they are being charged to have their wealth managed. I see people spending more time negotiating the purchase of a \$500 TV, than in selecting someone to manage their \$50,000 RRSP.

In my dealings with clients, both existing and potential, I make it very clear. These are your assets and you have a fiduciary responsibility to yourself to understand what fees you are paying. I advise people to get it in writing; nothing less will do. Some people feel it is rude to ask this question. Get over it.

### **Doing it Yourself**

When managing your investments yourself, beware there are fees to buy and sell stocks, bonds and in some cases mutual funds. Index funds do have fees imbedded in their structure. Index funds are almost always cheaper than actively managed funds, but they aren't free.

### **Full Service Broker**

Full service brokers are either compensated by your transactions or by the management fee charged on the assets under management. In some cases it is a combination of the two.

Traditionally brokers have not disclosed their fees in a client friendly manner. You can work through your broker statements to find out most of the fees but there are sometimes fees charged that are not disclosed (for instance bonds are usually bought and sold with an imbedded fee).

This can be easily sorted out. Simply ask your broker to prepare a letter outlining the fees charged during the prior calendar year. Remember it is your money.

### **Investment Counselor**

Investment counselors charge a fee based on the assets managed. There is usually a substantial saving once the assets go above a threshold (usually 2 million dollars).

There is a great advantage with most investment counselors when it comes to fees. Most will pool family accounts for fee purposes. This means a savings in fees which in some cases can be quite substantial. You don't usually get this saving with the other two options.

### 4.3 Performance

Understanding the performance of your portfolio is more than just looking at the annual returns. It also involves looking at the returns in the context of the risk taken (and desired).

This is where the industry has developed the use of benchmarks to better measure performance. A benchmark is a blend of the index returns for the individual asset classes the client is invested in. For instance, if a client desired the portfolio to be 50% fixed income and 50% Canadian equities, a benchmark would be constructed from the DEX Universe Bond Index (50%) and the S&P/TSX Composite Index (50%). The portfolio's performance is measured against this index. This methodology provides accountability and transparency – extremely important in today's investment world.

## Chapter 5: Risk Management

*The first step in the risk management process is to acknowledge the reality of risk. Denial is a common tactic that substitutes deliberate ignorance for thoughtful planning.*

Charles Tremper

### Outline

- > Why Take Risk?
- > Common Mistakes
- > Understanding the Investment Process
- > Selection of an Investment Manager
- > Investment Policy Statement

### 5.1 Why Take Risk?

Risk is taken for the following reasons:

- > To meet income needs
- > To provide capital growth
- > To protect assets from inflation

An important point to note is not to take risk for the sake of taking risk. Risk is meant to be a means to an end, not an end in itself.

A Cathy Brown story to share.

Several years ago, Cathy was approached by one of her clients who thought he should be taking more risk with his investments. He was invested in a balanced fund but thought it would be a good idea to "put a little more gas in the tank." When Cathy asked him why he wanted to do this, the client replied the markets were roaring and he felt he was missing the party.

Cathy explained to him that one takes more risk to either provide more income or generate more capital growth. In his case he could easily double his monthly draw and still be well below a 4% withdrawal rate. Increasing the capital growth would be for his children's benefit. "*My children are well looked after – they can provide for themselves*" was his response. They stayed with the current mix and weathered the bear market that followed.

The lesson learned?

Risk management must not be taken lightly. It must be discussed in detail with your investment advisor. Your time-frame plays an extremely important part in determining the amount of risk you should take. It is best to advance towards risk rather than hastily retreat from it.

## 5.2 Common Mistakes

Beware of the following common mistakes that can occur when taking risk:

- > Inappropriate asset mix
- > Liquidity
- > Not holding the course

Asset mix is by far the most important component of the investment process. There are many variables to consider:

- > The age of the client
- > The beneficiaries
- > The client's occupation if working
- > The willingness to take risk

Liquidity can be extremely important especially in bear markets. I have seen people invest a high percentage of their assets in highly illiquid securities. Private equity, start-ups and real estate can be, at times, extremely illiquid. Make sure they represent an appropriate percentage of your portfolio that tolerates their lack of liquidity.

Lastly, once an investment plan is put in place give it time to work.

## 5.3 Understanding the Investment Process

It is not necessary to have a complete knowledge of how your money is being managed but you must have some basic understanding of the process. The Bernie Madoff Ponzi scandal illustrates the risk clients suffered from having no understanding of the investment process used. For instance, linear returns are not consistent with investments in the capital markets. Taking risk involves volatility. Madoff investors were led to believe that a new investment model had been discovered – predictable returns without taking risk. Wrong!

Also, many Madoff investors were unaware there was no custodian involved. A completely independent custodian is a very necessary part of the investment process. Most investment managers use a custodian. The custodian is the gate keeper to accessing the funds in the clients' accounts. In the case of Bernie Madoff, he acted as both the investment manager and the custodian, thus there was no gate keeper.

It is also important to understand the investment process in the good and the bad times, especially in the bad times.

When things are going well and the market is going up, complacency will set in (which can lead to greed). When things start going badly, complacency turns to fear and ultimately can lead to capitulation. Capitulation is where the biggest mistakes can occur.

A number of years ago, a study was conducted in the United States examining mutual fund returns over a 10 year period. For the 10 years, the average mutual fund returned 10% per year, while the average investor's return was about 8%. Why the lower investor returns? Many investors tend to follow the trend, switching their investments at exactly the wrong time.

Too often investors tend to buy more when the market goes up and sell more when the markets go down. Very counter intuitive, but true! I have stated that one of the greatest challenges in our industry is to remain rational in an irrational industry.

#### **5.4 Selection of an Investment Manager**

The three options were discussed in the previous section. The only point I want to make here is that if you choose either a traditional full-service broker or an investment counselor, take the time to understand the company that is managing your assets. Next to taking market risk, this is the biggest risk you take when you invest in the capital markets. A well run investment firm has a better chance of delivering good long-term investment results than one run poorly.

Issues to consider when looking at brokers and investment counselors:

- > Stability of the firm
- > Ownership of the firm
- > Management structure
- > Succession planning
- > Depth of personnel
- > Compliance standards

## **5:5 Investment Policy Statement**

The Investment Policy Statement (IPS), or as I call it, “the contract of risk”, is in my opinion, the most important part of the investment process. Any discussion regarding the IPS must include the following:

- > Why is the IPS So Important?
- > What Must the IPS Take Into Account?
- > What Should the IPS Include?

### **Why Is the Invest Policy Statement So Important?**

The IPS is important for the following reasons:

- > The IPS forces the client to put their investment strategy in writing and commit to a disciplined investment plan
- > The IPS ensures that both the client and the investment advisor have a clear understanding of the client’s risk profile and the service commitment
- > The IPS provides clarity and accountability
- > The IPS is a legal document which can be reviewed by outside parties. For instance, if the client becomes incapacitated for whatever reason, a third party can access the IPS to understand how the money is being managed

### **What Must the Investment Policy Statement Take into Account?**

- > The purpose for the money to be managed
- > Risk management
  - The risk tolerance of the client
  - The client’s ability to tolerate losses
- > The client’s total portfolio
- > The client’s source of employment income
- > The age of the client
- > All of the beneficiaries
- > Investment constraints
  - Liquidity
  - Time horizon
  - Taxes
  - Unique needs

### **What Should the Investment Policy Statement Include?**

- > The individual portfolios and assets to be managed
- > The statement of objectives – current income versus capital growth
- > The investment constraints
  - Liquidity
  - Time horizon
  - Taxes
  - Unique needs
- > Asset allocation
  - Asset mix: percentages in bonds, equities and cash
  - Equity mix: percentages in Canadian, U.S. and International equities
  - Bond mix
- > Investment performance measurement
- > Benchmark performance measurement
- > Service and review
- > Signatures required
  - The clients
  - The portfolio manager(s) of the investment firm

In my opinion, if an Investment Policy Statement is not provided by your manager this is a big red flag.

## Chapter 6: 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

### 6.1 Define Your Dreams

I have outlined what I feel are the most common dreams that I have come across over the years. I would reinforce 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.

### 6.2 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 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.

### 6.3 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 for your dreams with one important caveat – there must be an ongoing discussion with your advisor regarding 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.

A Cathy Brown story to share.

Cathy Brown recently met with one of her clients, Bill and Jane Black, to discuss the dreams and plans for their substantial portfolio. One of the Blacks' primary dreams was the generational transfer of wealth for their family. They had substantial assets, more than enough to maintain their current life style. They were concerned about their two children who would inherit a substantial amount of money. Would they be able to handle it; both managing it and the lifestyle it would bring?

Cathy recommended setting up trust funds for each of the children. The children would be responsible for overseeing how the trust fund was managed. Cathy approached each child individually to set up meetings and over time established a relationship with each of them, independent of their parents.

Quarterly income distributions were put in place to help the children better understand what sort of income the capital could provide.

There were no extra fees to set up the two new trust funds. Cathy's firm pooled for fee purposes the parent's accounts and the two trust funds.

The lesson learned?

This is a good example of a win/win situation. The parent's goal regarding the generational transfer of wealth is a work in progress. Cathy and her firm get the opportunity to work with the next generation and develop a family relationship.

## 6.4 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.

Many people don't want to hear they must watch their expenses. 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 then up to the client to deal with it.

As I mentioned earlier, a good figure to keep in mind when it comes to drawing upon your capital is 4%. Numerous studies have shown that a 4% withdrawal rate should allow the capital to remain intact. Some investors may choose to use a more conservative figure, but anything above 4% in my mind, risks eroding the capital over time.

In some cases as mentioned in the story before, people have plenty of room to increase their withdrawal rates without jeopardizing their capital.

## 6.5 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.

## 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?

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