Women's financial learning centre

Build Your Own Financial Plan

A woman's guide to making better financial decisions with confidence and ease.

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Empower yourself financially!
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The Build Your Own Financial Plan program is produced and distributed by the Women's Financial Learning Centre, in association with Good Life Media.

It is our sincere hope that this course will provide women with the knowledge and framework they need to take responsibility for their finances and make strong financial decisions.

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Who To Trust With Your Investment Dollars

You now have enough basic knowledge to implement your own plan, but you don't have to. Approximately 90% of the women in this program will choose to work with an advisor of one kind or another.

When you decide to either work with someone, or to handle your own investing, make it a conscious and considered choice. Check yourself to make sure that you aren't abdicating or avoiding.

Some women avoid working with an advisor because they are afraid of picking the wrong person. Other women avoid investing all together because they are afraid they will make the wrong decision. Stop avoiding - ask for advice or do some more research. Remember, you are here to take control.

The Do-It-Yourself Approach

Some women feel like they are the best captain of their ship and in this information age, you have unlimited access to information about specific funds, specific companies, market trends and more.

But do you have time? You might save yourself a few dollars in fees, and you might be more committed to your goals than anyone else on the planet, but if you are going to commit to managing your own investment portfolio, you have to make sure that you can make the time to really do it.

Are you really saving money? Yes you can avoid *some* fees, but you are adding a certain level of risk to the equation. Make sure you understand what fees even do-it-yourself investors have to pay and what service accompanies that fee.

Most banks and credit unions have *discount brokerage departments* that work well for do-it-yourself investors. You pay a smaller commission on buying and selling stocks and bonds than you would if you worked with a stock broker who provides advice and helps select investments for you. You can open an investment account and buy mutual funds, individual stocks, bonds or cash investments.

There are also web sites like **www.globefund.com** that help you inventory and track your investments. These sites are free, and may give you more detailed information than your statement.

So, managing your own investments will take time and you are still going to pay some fees. When you look at that, you may decide that the added cost associated with an advisor is worth the money. Informed, trustworthy advice is worth a lot. And financial advisors really are a wealth of information.

Who Can Help You? How Can They Help? And How Do They Get Paid?

If you don't want to manage your own investments, there are a lot of different advisors to choose from. To pick the right advisor, you have to match your needs to the advisor's services, and make sure you will be able to work well together.

It used to be that choosing where to invest was simple. If you wanted a bank account or GIC you went to a bank. If you wanted stocks and bonds, you went to a stock broker. Times have changed. We now have almost unlimited options, which is good, but it can take a bit of investigative work on your part. To start, be clear on *the amount you have to invest* and *your risk tolerance*. Go back to your Which Investments Are Right For Me worksheets. That information will help to narrow the field.

Your next step is to start asking friends and colleagues for referrals. But remember, they might have very different investment objectives, or they might require services that you do not. To be sure that you are getting a referral to the kind of advisor you want, it is important to understand what kind of advisors are out there, what they can do for you and how they get paid.

Bank Branches Banks are a good place to start if you haven't invested before and have less than $50,000. (You also have the option of online banks.)

Banks now have licensed mutual fund representatives in their branches who can help you invest in mutual funds, GICs, Canada Savings Bonds, either within your RSP or outside your RSP. You can usually open a discount brokerage account through your local branch as well. Most branch staff are paid a salary and many of them are paid a bonus based on a variety of sales criteria.

Brokers or Investment Advisors It used to be that most stock brokerage companies were owned privately. Now all the major banks have in-house brokerage operations and there are relatively few independent brokerage companies. Generally brokers, or investment advisors as they are more commonly called today, work with clients who have at least $50,000 - $100,000, and if they have been in the business for a while, this might be as high as $500,000 or more.

They research, advise and process investment trades on your behalf. Some investment advisors also provide financial planning services. You can buy virtually any investment or financial product through an investment advisor, including mutual funds, and they are compensated either by commission whenever they buy or sell investments for you, or if it is a fee-based account, the fee is a percentage of the investments they manage for you. Commissions depend on the price and quantity of the investments you are buying and selling, but it is typical to pay $200 or more per trade. Fees for "fee-based" accounts are generally between 1.5%-3% of the value of the investments that they hold on your behalf. For instance, if you have $150,000 invested with an investor advisor and their fee is 2%, you would pay $3,000 per year.

Financial Planners A financial planner uses the financial planning process to help you manage all aspects of your personal finances more successfully. A Financial Planner will consider all of your financial needs including: budgeting and savings, debt management, tax planning, investments, insurance, retirement and estate planning. Many financial planners also provide investment management services and typically are paid commissions or a fee based on a percentage of assets if they manage your investments.

Fee-Only Planners and Money Coaches charge fees for their financial planning services and don't sell investment products. They may charge an hourly rate or a flat rate for a specific service. Because their income is not dependent on the amount you invest, or the type of investment you make, you can feel quite confident that they are giving you unbiased advice. The Women's Financial Learning Centre Coaches use this model.

Investment Counsellors or Private Investment Managers Investment counsellors, or private investment managers, deal with clients who have at least $500,000 and sometimes more. They offer highly specialized and personalized investment management services to their clients and they typically charge 1.0% - 1.5% of the value of the investments that they manage on your behalf.

It is important to keep in mind that there are also some advisors who work in very specialized fields. Some work in specialized areas of the market, such as mining stocks or ethical investments, some have minimum investment criteria for new clients, and others specialize in working with clients in particular industries. So when you ask a friend for a referral, also ask why they chose their advisor.

Fees to ask about

When you buy and sell mutual funds you may pay a sales charge, called a “load”. Be sure to inquire about, and understand the implications of these sales charges before you invest.

Front-End Loads (FEL) These sales charges range between 0 - 5% of the amount of the initial investment. You pay this upfront commission when you purchase the funds and you may be able to negotiate the rate. The advantage of an FEL is that it is a fixed amount. You know how much money you have to invest, so you know the fee.

Back-End Loads (also called Deferred Sales Charges or DSC) You pay this fee when you sell your mutual fund. Back-end loads range from 1% to 8% of your investment and it may be based on the original purchase value of your investment, or the market value at the time of sale. This fee usually declines the longer you own the mutual fund, reaching zero after a period of years. Ask your advisor and read the prospectus for a schedule of charges as this will tell you how long you must hold the mutual fund before the back-end load reduces to zero.

No-Load Often banks and credit unions won’t charge a fee if you invest in their own funds. You can also buy no-load mutual funds directly from the company that manages them. Companies like Phillips, Hager & North, Leith Wheeler, or Altimira offer no-load funds. But read the prospectus, sometimes no-load mutual funds have a minimum investment requirement.

Although not all mutual funds have a sales charge (e.g. no-load funds), all mutual funds charge a fee for ongoing management and administration of your investment.

Management Expense Ratio (MER): This is an annual fee charged by mutual fund companies to investors. It covers expenses such as investment management, marketing, accounting, administrative costs and fees to investment salespeople. MERs typically range from 0.05% (usually for lower risk investments such as money market funds) to more than 3% (usually for Canadian and international stock funds). You can find out about the MER in a fund’s prospectus or by asking your advisor.

How to Interview a Potential Advisor

Finding an advisor who you trust, and who offers the services you need, can take some time and research. It's best to spend the time up front by interviewing 2 or 3 advisors. This is also a great opportunity to learn how advisors manage money, and to develop your confidence in the investing world.

Questions to Ask	Answers to Listen For
Can you describe the type of clients you serve?	Does the answer sound like you?
What are the costs of your service?	Understand the fees and commissions, if something is unclear, ask for clarification.
What products do you offer?	Are they the products you want to buy?
Do you have a minimum investment?	If so, do you have that much to invest?
What are your qualifications?	Listen for professional designations and amount of experience with clients like you.
How many times a year will we meet?	Once a year is usually ok for new investors.
How will I receive my statements?	You want to get regular statements so that you can monitor your accounts. And ask if they will help you interpret the statements.

You might also show them your investment worksheets and see what feedback they have for you. Bear in mind, advisors may have different strategies and they may have good reasons for suggesting alternatives. But listen to make sure that their strategy addresses your goals and that they can demonstrate the advantage of an alternate asset allocation.

You will likely learn a lot about the advisor from their responses. Be aware of how you are responding as well. The key to a good relationship is that you, the client, are comfortable.

It is a good idea to write down the information you get from the interview, make notes about their feedback, your response, and if you think you should take action on any items.

Do you work with an advisor currently? If so what kind? ________________________________

How would you describe your level of comfort / satisfaction with your advisor?

____

____

Given your needs, what type of advisor would be best for you? ________________________

Remember, it's your hard-earned money that you are entrusting to your advisor. Make sure that you and your money are getting the respect you both deserv

Review and Rebalance

Are your current investments going to adequately support your goals and your new financial plan? ____________________

Do you have the right overall asset allocation? ____________________

Does it reflect your tolerance for risk? ____________________

Do you have to make any changes? ____________________

If so, take a moment to plan your next steps:

Do you need to ask people to refer an advisor? If so, who could you ask?

____

Do you need to call your current advisor and set up a meeting to review your investments? If so, when?

____

Are there investments or changes to your investments that you can make yourself? Which ones? How will you make the changes? And when?

____

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No matter what investments you choose, or who is managing your investments, you need to review your portfolio at least once a year.

Change your investments when your life changes, not when the market does.

You may need to adjust your portfolio if you experience:

- a change in your life circumstances (e.g. get married, have kids, retire)
- a change in your goals
- a change in your risk tolerance
- a change in the time horizon for your goals
- aging. Younger people tend to hold more stocks or stock mutual funds, because they have time to ride out the dips. You may shift to a more cautious approach as you near retirement. After retirement, you will want to focus more on income investments because they will provide your monthly income.

You now have the basic framework to start investing with confidence. Be sure to take a life-long approach to both investing, and learning about investing, but start today. Make a phone call or start researching online. Go for it. Make your money work for you, and use it to live your best life.

Any other next steps for investing?

Investing is like fine dining.

Pairing is key. Red wine goes better with steak. White wine goes better with fish. Some investments are better with short term goals, and some are better with long term goals.

Taste is acquired. You are more likely to choose a wine that suits your palate if you know the characteristics of the different types of wine. Likewise, learning the advantages and disadvantages of different types of investments makes you better able to choose ones that suit your needs and your life.

Tastes change. You may enjoy French cuisine now, but as you age you might better appreciate the health benefits of Japanese cooking. Phases of life, and changes in priorities impact your investment choices. You'll make changes when you need to make them.

Bon Appetit. You don't have to be an expert to enjoy good wine, good food or good investments.

Insurance Basics

What you might need & Why you might need it

Spend 1% of your life making sure you have a solid Plan B and 99% focused on living Plan A to the fullest!

So far, your plan has centered around your goals, essentially that's your Plan A.

But what if something should happen to you or your loved ones? It's time to spend a little bit of time on Plan B.

No one likes thinking about the potential for illness, injury, unemployment, or death but a good financial plan factors in your insurance needs. Neither planning nor insurance will prevent potentially difficult times. Being prepared can lessen the financial and emotional impact for you and for your family.

People have a lot of preconceived notions about insurance, and unfortunately about insurance sales people. Before you go any further, you will want to check your assumptions at the door. Use this chapter to fill in your knowledge gaps and take a positive approach to this aspect of your financial plan.

When you are familiar with your options, and confident that you can ask for what you want, call an insurance provider to help you assess your needs and help you select specific insurance products.

You Can Be Self-Insured

Before reviewing the types of insurance that you can buy, consider for a moment the possibility that you could be self-insured.

Being *self-insured* means that you have sufficient personal means to support yourself, and your loved ones. Full stop.

It means that if you, or your spouse, were unable to earn an income as a result of death, illness or injury, that your lifestyle, and the lifestyle of your dependants, would not be financially hampered.

In the event of a death, illness or injury, would you have sufficient means to:

pay off debt, so that your spouse or loved ones aren't left burdened with debt

provide income, so that you, or your dependants, can maintain the life you built and continue to save for the future

pay added expenses, for medical expenses, funeral arrangements, legal or tax bills

In our culture, many people live a little too close to the edge of their means. Based on your Spending and Savings Plan, you can figure out how close to the edge you are.

It is possible for people to build up sufficient savings, or to live a lifestyle that makes you independent of the need for insurance. But unless you, and your dependants, are in a position where there are "enough" personal financial means to cover your debts, lifestyle and additional expenses, you should consider purchasing appropriate insurance policies.

Get Your Money's Worth

Insurance premiums cost you money, so again, before you buy anything, you want to know how the purchase will be to your best advantage, and help you to live a life that is consistent with your values.

There are a lot of insurance products and policy options available to you. To make sure that you get the type of insurance, and the *amount* of insurance you require, think about the following questions as you review your insurance options and needs in case of illness, disability or death.

- How much money will you, or your dependants, need?
- What standard or quality of life do you want to support?
- What policies will give you the best coverage, for a price you can currently afford?
- Would you be better off with slightly less insurance and more savings, or the other way around?

The answers to these questions are different for everyone. Be sure to discuss them with a professional advisor who will take your whole financial plan into consideration.

Typical Times To Review Your Insurance Needs

You can buy insurance at any time of life, provided you have the financial means, and you meet the eligibility requirements. Listed below are times of life, when you would be especially wise to review your needs. (You may, or may not, need to make a change at any of these junctures, but thinking about your insurance, and other aspects of your financial plan at these key times is a good habit to get into.)

Buying a new home Often a couple buying a new house will consider buying life insurance policies. If either person in the couple were to die, or become unable to earn an income due to illness or injury, the other person could need financial assistance to make the mortgage payments and remain in the home.

Paying off your mortgage Once you are clear of major debts, and your shelter is secure, you may consider reducing your insurance coverage. Your living expenses are cut significantly when you stop having to make mortgage payments, so depending on the other circumstances in your life, you and your dependants, if any, may require less financial resources.

Making a life commitment If either you or your partner would be financially disadvantaged by the lack of the other's income, you might consider insurance at this time. However, if you both have a strong potential to earn, no dependants and no major debts to burden the other partner, you would need to weigh the cost of insurance against the benefits.

Getting divorced, or being widowed You will need to adjust your policies if your spouse was the beneficiary. You may also want to look into forms of insurance that provide you with financial support if you become unable to take care of yourself or your dependants due to illness or injury. And if you received insurance coverage through your spouse's benefit plan, you will need to look at replacing that coverage.

Having children or other dependants Whatever the household situation, one parent, two parents or three, parents are wise to ensure that they have a financial back up plan to replace the contribution that they make to support their children, and other family members. Or, if you have an aging parent, sibling or someone who is financially dependant on you, you need to consider them when you review your insurance needs as well.

Having self-sufficient children or becoming dependant free When people no longer need you for their financial survival, your life expenses shift, so you might consider reducing your insurance. However as they age, some people look at life insurance as a way of securing a legacy, or even reducing the tax burden when their kids inherit their assets.

Starting or closing a business In either case, you will likely have specific insurance needs. And you may also require personal insurance to be eligible for certain financing.

Put Your Estate In Order

Estate Planning and Legal Issues

"And now, the end is near
and so I face the final curtain,
my friends, I'll say it clear,
I'll state my case of which I'm certain.
I've lived a life that's full,
I've travelled each and evr'y highway
and more, much more than this,
I did it my way."

~Paul Anka

Because you are building your own financial plan, you too will be able to say, you did it your way. Now it's time to face the final curtain, and tell people clearly what you want to happen when you die.

Too many people put this off. Why? You can't put off death. And you are way too far down the path to financial control to give up the ghost! Your job now is to plan and to protect those you love.

Okay, we have suggested you seek professional advice in other chapters, but we can't stress enough how important it is to get legal and financial help from estate planning professionals. We aren't lawyers, but as financial advisors, we have seen the family nightmares that can happen when estate planning is not properly considered. Save your family strife; plan and protect.

Note: There are unique tax considerations specific to estate planning. Talk to your investment and tax advisors to ensure that your plans factor in any taxes that might be passed on with your estate assets.

What is Estate Planning?

Estate planning may sound grand, but it just means that you have made plans for what you want to happen when you die, if you are incapacitated, or are near death. Essentially, it is a gift that you can prepare while you are alive, for the people or organizations that you leave behind.

Your *estate* is everything you own: personal effects, real estate, investments, insurance polices, intellectual property rights, licences and other business property, etc. Your estate also includes your debt.

It is critical that you make the necessary decisions and prepare the necessary documents now. If you don't, there may be no way for your wishes to be carried out. Worse yet, the legacy you leave could be a horrible financial and legal battle.

Key estate planning questions

- Who will be primarily responsible for carrying out your wishes upon death, or if you become unable to manage your affairs?
- Have you provided direction for your medical treatment, organ donation and funeral arrangements?
- Have you left enough money to cover your funeral expenses, or have you prepaid them?
- Does anyone know what type of burial and funeral arrangements you would like?
- Do you want to plan to die broke? Or do you want to plan to leave an income, or inheritance to loved ones?
- Do you have plans to cover any debts you might have?
- Who will inherit your estate? How will it be divided? Would you like to include a charity?
- Have you made special arrangements for any beneficiaries with special needs?
- Have you made special arrangements for children of a previous marriage?
- Do you need to make arrangements for someone to assume guardianship of your children?
- Do you have plans to transfer your business so that it survives after you die?

It might seem odd, but take a moment to journal what you would like to see happen when you die. Like everything else, you'll build your plan around your goals and visions for the future.