

Planning Matters



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Financial Planning

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We often hear about the importance of having a financial plan which is understandable; you are much more likely to reach your goals if you have a roadmap to get you there.

The main components of a financial plan are cash flow and budgeting, insurance, investment management, tax planning, retirement planning and estate planning. As Portfolio Managers at Leith Wheeler, our focus with our clients is on the investment management component of a financial plan. Although we don't prepare comprehensive financial plans for

clients, we do have general financial planning knowledge. You may have done some financial projections already with your Portfolio Manager, but there could be some additional issues to consider in creating your financial plan. The purpose of our Planning Matters newsletter is to look into areas clients face outside of the traditional investment management sphere, such as some of the basics of estate and tax planning covered in previous issues. This issue looks at the overall concept of financial planning and what it means to you, with the aim of having you develop or review your own financial plan.

The first step to financial planning is to define your goals. This might seem extremely simplistic, but it is a worthwhile exercise to write down your specific financial goals – not just “save for retirement” or “pay off the mortgage”. Setting comprehensive, specific goals with timelines that are measurable is the first step in establishing your financial plan. Once you have your goals or objectives defined, your next step is to develop a strategy to get there. For some people this is quite straightforward – “save more” or “spend less”. Others need more help and one option for those in this situation would be to seek the aid of a professional financial planner.

Who are Financial Planners?

If you google “financial planners in Canada”, the first things that appear are ads by product-pushing institutions. The next is information on how to become a financial planner yourself. There is a huge array of people with various qualifications in the marketplace that offer “financial planning advice”. What is the difference between them and how do you decide who is right for you? The differences can be significant. The first question is whether or not they are qualified. The second is how are they compensated? Finally, what do you really need?



Are they qualified?

There is a wide range of expertise and education among financial planners. For example, a mutual funds salesperson or insurance salesperson with a license to sell mutual funds may not have thorough knowledge of taxation, estate planning issues and retirement planning issues. Look for a Certified Financial Planner (CFP) designation as a starting point. The CFP is the only program whose entire focus is on the area of financial planning – it is quite broad in nature and is directly applicable to developing financial plans and the issues relating to financial planning. It also requires continuing education so people that use the CFP marks are required to maintain and keep their knowledge base current.

How are they compensated?

The unfortunate reality is many people who call themselves financial planners are in fact salespeople. Some might sell investment products or insurance (or both!). Not all salespeople are bad by any means, but one key question to ask is how are they compensated? If they are paid commissions by investment companies to sell their products, is the advice they are providing objective? It is important to be aware of the biases of any advisor and if there is an inherent conflict of interest in the service they provide.

What do you need?

The next step in determining who is best suited to help you build your financial plan is to figure out what you really need help with. Budgeting or cash flow management may not be a problem for you, but you need help with efficiently generating an income stream from your asset base, which may be at numerous institutions. Do you need insurance? If you are debt free and empty nesters, you may not. If you want to look after estate taxes or leave a larger estate to your family and don't have sufficient capital saved, it may be worthwhile to explore insurance options. Make sure you communicate this to your financial planner or advisor and focus their efforts on what you really need.

Using a ‘Fee Based Financial Planner’

One option for many people looking for objective, independent advice is to find a fee for service financial planner. These professionals charge a fee to create a comprehensive financial plan and will often work with you to follow up and monitor your progress. You may think ‘why would I pay for a service like this when I can get financial advice from my bank or insurance representative for free?’

The reality is, you may not be getting objective or qualified advice from your bank representative or insurance agent, and you are certainly paying for it. Often the ongoing management fees or sales commissions you pay are more than a fee based service plus a reasonably priced investment product. Unfortunately there are not that many fee based financial planners in Canada, but their numbers are increasing.

With the introduction of increased fee disclosure regarding investment products, we are beginning to see a shift to fee based advisors. Rather than being compensated by mutual fund companies, these advisors will charge a fee for their advisory services. Knowing what you are getting for this fee will be very important. Also, as mentioned previously, knowing what services you need is critical.

Using a ‘Team of Specialists’ Approach

Not everyone needs a financial planner. Another strategy that is quite common, and that can be very effective, is to work with a team of specialists to develop your financial plan such as an Estate Lawyer, Insurance Specialist and Accountant. Once the plan is set up properly, all that is required to maintain it is periodic review to ensure you are on track. This review can be done either on your own or with the help of your accountant. Many of our clients work with an accountant already, so having him or her take on the role of unbiased consultant is an easy extension. Many accountants have expertise in tax planning and can also give you feedback on your current investment portfolio – particularly if you have assets at more than one institution. It is important that each of these strategies works together to make a cohesive strategy. You don’t want the objectives of one area of planning conflicting with your other objectives, so consultation between your team at the outset (including your investment manager) can be very important.

What does it mean for you?

You are ultimately responsible for your financial success. Reviewing your progress in relation to your roadmap is critical to make sure you are on track to meet your goals. Measurement against your stated objectives on a regular basis can be done easily and can improve your likelihood of attaining your goals. Your Portfolio Manager should be able to provide you with rate of return information, which is necessary for you to determine if you are meeting your goals. Your accountant or financial planner can help review your investment performance and should be able to provide feedback on its reasonableness given market conditions. Volatile markets can compel people to want to change their strategy, but keep in mind that reactionary decisions driven by short term results can damage overall performance in the long term.

As a client of Leith Wheeler, you already work with a Portfolio Manager or Advisor and if you have not had a

review recently, consider having one in the near future. If you have portfolios with various institutions, be sure that they are working in a cohesive manner to achieve your goals. Your Portfolio Manager can give his or her opinion on your strategy, but using a specialist or team of specialists to supplement it may be worthwhile. Taking responsibility for monitoring your financial progress and keeping on track to meet your objectives is a complex task, but there is help available if you need it.

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Karey joined Leith Wheeler in March of 2006 as an Investment Funds Advisor after nine years with Phillips, Hager & North in Vancouver and Calgary. Karey provides investment advice to individual investors and discretionary portfolio management for Private Clients.

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