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SAVING AND INVESTING GUIDELINES FOR "NEW MONEY" OR "NEW INVESTORS"

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These are some ideas on how to handle money from selling an asset, or receiving a gift, a bonus, an inheritance, a lottery win, etc. These are not recommendations, only discussion matters, and you should meet with a professional advisor to review your situation.

1. Set the money aside in a safe bank account(s) until you can do some planning. If you won the lottery, I have important advice - NO – do not splurge "until the dust settles." Most winners of millions of dollars have nothing left within a few years because they did not get or follow advice from a professional advisor. Consider the guarantee limits from the Canada Deposit Insurance Corporation, the Credit Union Deposit Insurance Corporation and Assuris (for life insurance companies). You may wish to spread your money among several institutions.
2. Determine your priorities and prepare budgets
    a. Pay off debts, such as credit cards and lines of credit; also consider mortgages and other loans but ask about early payment penalties first – it may be better to wait until a due date or anniversary date.
    b. Prepare a budget for your lifestyle needs, and project this for the next ten years. If you are not a numbers person, make a list of all of your expenses for a year and add them up. Search online for budget worksheets, spreadsheet or calculator to make sure you miss no expenses.
    c. Prepare a budget for one-time only things you need or want – separate them into needs (i.e. your car needs replacing, education tuition, house repairs) versus wants (fancy new car, new house or major renovations, travel, play toys).
3. Plan to visit a <u>professional</u> financial planner. Typical credentials are R.F.P. (Registered Financial Planner), CFP (Certified Financial Planner), PFP (Personal Financial Planner) and CH.F.C. (Chartered Financial Consultant)). Decide whether you want an hourly based fee-for-service planner, who may be best at this stage because you want objective advice but are not yet looking to invest. However, if you want a one-stop shop, then someone who also sells investment products may be your choice, as long as they have one of the above credentials.
    a. Think about what you want this money to do for you and your family, friends and charities, now and in the future. What is important to you?

b. Write down any comments / questions you have in advance to prepare for a meeting. Sample comments and questions:

   i. Here is my budget (or, please help me do a budget) – I need this much money each year and I want to do these special things.
   ii. I want to be sure that I can retire at age X, leave money to my children, give money to my favourite charity, etc.
   iii. How should I invest this money to meet my needs and goals?
   iv. What are the risks based on your investment plan? What is the most I could lose?
   v. And lots of other possible questions based on your concern – ensure you are asking questions important to you, and that your advisor is answering them. If you leave without understanding what you need to do, you need to start again with another advisor.

4. Now you have some choices to make, unless you only plan to buy GICs and term deposits at your local financial institution. If you understand the stock markets, and are prepared to take the risk of investing on your own, open your own investment account with a discount broker or "robo-advisor" and invest appropriately. Alternatively, plan to visit and interview three investment advisors and obtain proposals for them to manage all or some of your money. Even if the financial planner you met in step 3 above has given you a plan, you should still get two more opinions.

   i. Provide them with your financial plan from above, if it was from an independent planner.
   ii. Ask for a written proposal on how they would recommend investing your money, and why.
   iii. Answer their interview questions openly and honestly so they can make the best recommendations for you, especially about how much you understand about investing, and how much you of your capital you are prepared to lose, either temporarily for several years or permanently in case of an unexpected crisis.
   iv. Ask about the risks with their plan, and the likelihood of losses.
   v. How often will they meet with you to review performance, and recommend changes?
   vi. How will you pay them?
      1. Will it be by commission when you buy and sell?
      2. Will it be a regular fee based on the amount of money invested regardless of activity?
      3. Will the fees apply equally to your bonds and guaranteed investments as well as to your equities? Unless you are getting discounted fees or extra advice, consider investing in GICs

(without fees) at your bank, credit union or insurance company. Why pay for something you can get for nothing?

4. Will the fees be deducted from your account cash balances, or from within the investments themselves, or both?
5. How much money is that in dollars (not just percentages) each year based on the amount you are giving them?
6. What will you receive every year in return for any annual fees you are paying?

vii. Discuss the benefits of investing gradually (dollar cost averaging) to reduce the risk of a major market downturn if you invest all at once.

5. Evaluate the proposals from each advisor. Choose the one with which you feel most comfortable, or choose to use more than one advisor if appropriate. Read the investing articles on www.corkumfinancial.ca for any strategies and products that form part of the proposals to learn more about them and to see if they are appropriate for you. Go back to the independent fee-only financial planner from step 3. If you need an objective opinion.
6. After investing the money, review your monthly statements to ensure the initial purchases were made as agreed, and that you understand what is happening each month. Follow up with any questions and concerns, and ensure you meet as often as agreed to review your performance. Also, ensure you get your questions answered and understandable information at these meetings.

See the schedule on the next page for some typical options you have with respect to managing your money. This is not an exhaustive list, and you can certainly have a combination. However, ultimately the choice is yours, and you need to do your homework. No one makes a lot of money without a lot of planning, which can be a lot of work. DO NOT let someone convince you to hand over your money and take care of it for you without you doing your own homework as I set out in this article (and others on my web site). Remember how hard and long it took you to get this money. THERE IS NO EASY PATH TO CREATING AND PRESERVING YOUR WEALTH, but there is some common sense to it.

TYPICAL OPTIONS BASED ON PRODUCT AND PORTFOLIO SIZE

These are not recommendations, only examples – speak with a professional advisor. Considerations include your investment knowledge, your income, your net worth, your understanding, willingness and ability to accept risk, among other factors

Type / Amount	**Fixed Income (Safety)**	**Equities – Under $300,000**		**Equities – Over $300,000**
Advisor	**Most Financial Institutions**	**Advisors - Mutual Fund License Only** Banks, Credit Unions, Insurance Cos., Investment firms)	**Do-It-Yourself** Using Online Discount Brokerage, Robo Advisors (Full service brokers usually have higher limits)	**Do-It-Yourself or Any licensed advisors** Mutual fund advisors Online Discount Brokerage Robo Advisors Full Service Brokers
Considerations	Product is low risk, little advice required, maturity dates need to be planned, laddered maturity dates reduce rate risks.	Financial advice provided, but product selection is limited to mutual funds, and sometimes limited to the advisor's own company product list	No financial advice; online provider may provide research tools for your own use	Financial advice available if full service broker is used
Choices of Products	Savings Accounts, Guaranteed Investment Certificates (GICs), Term Deposits, Bonds, and mutual funds containing the above Understand guarantee limits, if any, on each	Mutual funds	Mutual funds Exchange Traded Funds (ETFs) Individual Stocks Understand fee structure - % of assets or buy/sell commissions and/or embedded fees within the funds	See other categories Pooled/Managed funds with professional money managers

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Type / Amount	Fixed Income (Safety)	Equities – Under $300,000		Equities – Over $300,000
Fees – There are many types of fees – these are just examples of some and rates vary	Minimal, normally built into cost of security purchase (~0.25%) for direct product purchases. Fixed income mutual fund fees may average 1.46% for bond types of funds[1] in addition to possible buying or selling commission. Money market mutual funds and fixed income ETFs would have very low fees	Varies based on type of fund, increasing with risk levels – typically a management expense ratio (MER) based on value (2011 annual averages[1] - fixed income 1.46%; balanced 2.03%; equity 2.26%, including trailer fees to advisor of 0.5%, 1.0%,1.0% respectively). Amounts typically range from 0.25% to 3.0% May be buying/selling commissions also	Mutual funds – see to the left ETFs – typical ~0.25% MER plus buying commissions; Individual stocks – buying/selling commissions (e.g. $10 per trx) Robo-Advisors – ETF MER plus annual fee (about 0.50% – 0.75%) & maybe transaction fee	See other categories Full service brokers may charge buying/selling commissions (e.g. 2.5% of price or $75-$100 per trx) or charge annual fees based on account size – 1% - 2.5%;

[1] Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives - A study by Investor Economics for The Investment Funds Institute of Canada September 2012

Blair Corkum, CPA, CA, R.F.P., CFP, CFDS, CDFA® , CLU, CHS holds his Chartered Professional Accountant, Chartered Accountant, Registered Financial Planner, Chartered Financial Divorce Specialist as well as several other financial planning related designations. Blair offers hourly based fee-only personal financial planning, holds no investment or insurance licenses, and receives no commissions or referral fees.