CANADIAN INVESTORS' COURSE

Sessions 6 and 7 – Financial Planning Commentary

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Have you ever been attracted to financial advertising like this:

'ATTRACTIVE INCOME OPPORTUNITY : 6.0%

Earn $500 per month on a $100,000'

This seems G.I.C like, unfortunately, G.I.C. interest rates are not that high today.

So what is this? It's most likely investing in a mutual fund category like a Growth and Income fund or an Income and Growth fund and having a steady monthly payment from this investment. Maybe it is a different investment. Remember there isn't currently any conservative guaranteed investment that yields 6% or anything above 3%!

Follow the next 4 slides and follow the possible scenarios that can occur with this type of NON-GUARANTEED scheme.

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The Sequence of Returns

Invested $30,000

- No withdrawals
- Same portfolio
- Order of returns reversed

	Phil's Portfolio Poor Early Returns		**Anne's Portfolio** Strong Early Returns	
Age	Annual Return	Year-End Value	Annual Return	Year-End Value
40		$30,000		$30,000
41	-34.2%	$19,740	28.2%	$38,460
42	-10.6%	$17,648	22.0%	$46,921
43	13.6%	$20,048	17.9%	$55,320
44	11.5%	$22,353	7.4%	$59,414
45	27.4%	$28,478	19.8%	$71,178
51	12.4%		7.8%	$168,492
52	12.0%		28.6%	$216,680
53	-9.5%		-9.5%	$196,096
54	28.6%		12.0%	$219,627
55	7.8%		12.4%	$246,861
61	19.8%		27.4%	
62	7.4%		11.5%	
63	17.9%		13.6%	
64	22.0%		-10.6%	
65	28.2%		-34.2%	

So…

Who did better?

Phil or Anne?

The Sequence of Returns

- Same average return
- Same results after 25 years

61	19.8%	$104,041	27.4%	$276,537
62	7.4%	$111,740	11.5%	$308,339
63	17.9%	$131,741	13.6%	$350,273
64	22.0%	$160,725	-10.6%	$313,144
65	28.2%	$206,049	-34.2%	$206,049
Avg	**8.0%**	**$206,049**	**8.0%**	**$206,049**

No Difference!

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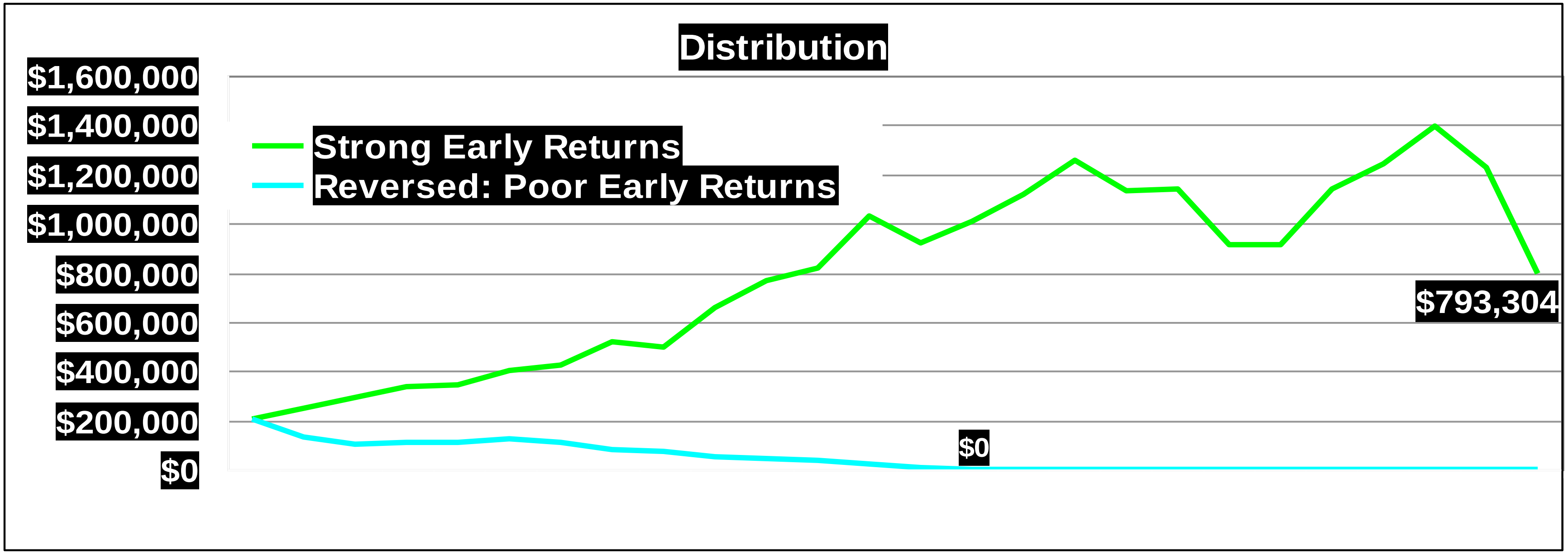
BUT IN RETIREMENT, <u>the sequence of returns matters</u>

•Same Portfolio
•Same assumptions
•BUT… withdrawals set at 5% of balance ($10,300) AND adjusted for 3% inflation annually

BIG DIFFERENCE

	Phil's Portfolio Poor Early Returns		Anne's Portfolio Strong Early Returns	
Age	Annual Return	Year-End Value	Annual Return	Acc. Value
65		$206,049		$206,049
66	-34.2%	$128,801	28.2%	$250,947
67	-10.6%	$105,662	22.0%	$293,209
68	13.6%	$107,615	17.9%	$332,807
69	11.5%	$107,439	7.4%	$345,344
70	27.4%	$122,104	19.8%	$399,831
76	12.4%	$33,721	7.8%	$814,831
77	12.0%	$21,796	28.6%	$1,029,533
78	-9.5%	$6,432	-9.5%	$918,434
79	28.6%	$0	12.0%	$1,011,701
80	7.8%	$0	12.4%	$1,119,636
86	19.8%	$0	27.4%	$1,136,107
87	7.4%	$0	11.5%	$1,245,389
88	17.9%	$0	13.6%	$1,392,337
89	22.0%	$0	-10.6%	$1,226,572
90	28.2%	$0	-34.2%	$793,304
Avg	**8.0%**	**$0**	**8.0%**	**$793,304**

Sequence of Returns is Key during Distribution



This type of investing for income can dramatically erode your original principal.

Here is an investing example, assume you

1. Invest $100,000
2. remove $500 per month

The overall investment (bonds, debentures and stocks) loses 7% overall in one year.

What is my investment worth after one year?

$100,000 - $6,000 (income paid) - $7,000 (capital loss) = $87,000

The next year you pay yourself another $6,000, how much must the investment grow by to get back to my original $100,000? Over a 20% positive return is required just to get back! Not very likely if a big part of your mutual fund are bonds or debentures. Go back to Session 1 on Bonds to learn. Do you consider this a wise, or conservative, way of generating income given we have the lowest interest rates in history? Were you properly informed when you decided to do this? This passive approach makes it mathematically difficult to succeed.

RULES BASED INVESTMENT APPROACH MAY HELP WITH THIS

Types of Financial Planners

We at CIC have created our own categories of Financial Planners; you may presently relate to this:

1. **Fee-Only Full Financial Planner**
2. **Product-Selling Full Financial Planner**
3. **Product-Selling Restricted Financial Planner**

These definitions can be confusing but we will attempt to explain the differences because it's very important to be fully informed.

*** People licenced to sell insurance products can call themselves what ever they want. Government has not regulated them yet. You don't know what you are getting. Beware!**

Different Financial Planner designations

Planners should have one of the following professional designations:

1. PFP (Personal Financial Planner)
2. CFP (Certified Financial Planner)
3. CIWM (Certified International Wealth Manager)

PFP® designation is a leading industry standard that ensures those who earn it demonstrate the knowledge, skills and attributes necessary to evaluate and manage all aspects of a clients' unique financial situation.

The **Certified Financial Planner**, or CFP, is bigger, and better than a PFP and an ideal designation on which to build a single accreditation for the professional adviser. It is the standard for a planning designation. A PFP designation and one qualifying exam will lead to a CFP.

The **CIWM** is instructed in proven strategies to protect and build the significant wealth of a more affluent clientele. Associated with 'holistic' financial planning. **The highest designation for integrated wealth management planning in Canada and around the world.** A globally recognized and fully portable credential for international wealth management. A CFP and qualifying exams will lead to a CIWM.

Let's define the 3 categories of Planner

Fee-Only Full Financial Planners are rare in Canada. They are compensated for providing a full financial plan. They do not sell financial products or get compensated by financial products. Fee for a Plan can range from $1,000 to $10,000 depending on the complexity. A Full plan **MUST** include Estate planning with insurance and Will planning as well. These individuals provide excellent Plans. Too bad there are not more of these Planners.

Product-Selling Full Financial Planners are large in number. They can provide extensive financial plans. High net worth individuals receive very sophisticated and complete Financial Plans. There is, generally, no charge for a Financial Plan. They earn income through managing portfolios and selling financial product. IIROC (Investment Industry Regulatory Organization of Canada) licenced Planners are best at this. MFDA (Mutual Fund Dealers Association) licenced Planners qualify for this category but are restricted in the type of investment product they can provide.

Product-Selling Restricted Financial Planners tend to be dominated in the Banking and Credit Union industry. A Financial Plan may just be answering a simple computer questionnaire followed by a suggested mutual fund portfolio. They cannot discuss insurance and, therefore, don't provide adequate estate and Will planning. If you refer to **CIC Session 6** example of the **'balance sheet'**, a planner in this category may be conflicted to recommend paying off, non tax deductible debt because it could lead to less Bank products sold to you. These sellers tend to sell in-house product.

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