

YOUR MONEY

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Kick-starting your financial plan

In addition to relaxing with family and friends the holiday season provides opportunity for year-end reflection. A friend said he'd like to spend some time thinking about his financial plans but wasn't sure where to start. Assuming there must be other people in the same boat, I thought I'd use my column to provide a few ideas for getting started.

How are fees affecting your accumulation of wealth?

Depending on your investments, you pay various fees for purchasing, maintaining and selling them. On those investments do you know how much any asset must rise in value before you break even? Do you know if your fee set-up is the most advantageous for you and do you know what you get in return for the fees?

Do you know what your mutual fund asset allocation is?

If you own a variety of mutual funds you will have a difficult time determining the answer because the average fund has such a large number of holdings. If funds have similar investing mandates you are almost certain to have overlap, causing your portfolio to be too highly correlated and limiting potential returns. Can you complete the sentence "My mutual fund asset allocation is....."?

When did you last think about rebalancing your portfolio?

Smart investors diligently establish their original financial plans according to their goals, time horizon and risk tolerance. Unfortunately many then forget an important piece – monitoring and rebalancing their portfolio. As time passes your needs may change. As investments change in value, they will have different weightings relative to your plan. Either of these can throw your asset allocation out of kilter. Does your portfolio balance still meet your goals?

Does your portfolio have the right level of liquidity?

Do you have too much liquidity because you've been trying to meet long-term goals by putting your money into short-term investments like GICs? If so, it's unlikely you will ever accumulate enough wealth to retire. Do you have too little liquidity? If so, it could mean you are going to lose money when an emergency compels you to get money from your portfolio to your wallet in a hurry.

Suppose you lose your earning ability between now and retirement?

None of us can predict when or how a disability might take away our ability to earn a living and yet we don't take appropriate action. We protect our physical assets against loss but we don't think about our income – even though its loss can bring all of our financial plans to a grinding halt. Do your financial plans have the right disability protections in place?

Suppose your retirement is not as healthy as you hope?

We all want a long and healthy retirement but there are no guarantees. Therefore our financial plans should reflect potential health care costs for such things as long term care, critical illness or medicines in case we fall ill in retirement. Are you among the ninety-one per cent of working Canadians who have not accounted for health care expenses in their retirement planning?

Will you transfer wealth to your beneficiaries the way you want?

Thinking about estate planning is difficult because it involves life's final chapter, but it shouldn't be delayed and it is not enough simply to have prepared a will. The planning involves maximization of wealth during your lifetime and reduction of taxes and probate fees when the time comes. Are you comfortable that your family will be looked after in the best way possible?

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