Kurt.rosentreter@manulifesecurities.ca 416-628-5761 ext. 230

Making Money Management Easier

By Kurt Rosentreter, CA, CFP

It's a busy life.
Careers. Kids. More career. Cutting the grass. Traffic. Fun. Hopefully lots of fun.
Oh yeah, and money. Money makes all this go round. That's where we come in.

First and foremost, I strive to help people reach their financial goals. It is my life's career mission – and I passionately love what I do. I will never stop trying to help people reach their dreams – it's the best career in the world – and possibly one of the hardest.

Long ago, I realized however that money management is only partially about money – it's also about managing expectations. Most days I feel more psychologist than money manager. Helping people to get ahead, not worry about money, deal with the stock market, feel good about their goals, avoid fights, deal with births, deaths, marriages, divorces, job change and all of life's tribulations, know how they are progressing towards goals, tie up their loose ends and generally – be there for them. Seven days a week if need be. Effectively money management is absolutely about peace of mind too.

And that's why making it simple helps. Here is my "Top 10 List" on designing peace of mind finances.

Get your Will done and give me a copy.

So many people don't have an up to date Will or Power of Attorney. Why? Time. It takes about eight hours of your time focused on this planning to get it done. We all know it is important. But we defer, defer, defer. Let's set a date – get your Will done by June 2011. I will simplify the process for you. I will keep a copy for you should the family ever come calling for it. Put my name on your fridge and tell your family to call the guy on the fridge if something bad happens. I'll be there for them. Promise.

One down, nine to go.

Buy a bit more life and disability insurance than you really want.

I don't like car and house insurance either, but life and disability insurance is also a necessary evil. Your world could be destroyed without it. This is one area that if you don't worry about it, you should. Employer provided group insurance is almost universally inadequate. You need more. Your most important asset is not your house – it is your ability to generate an income for 35 years – protect it religiously and don't cut corners on insurance. Pay your life and disability insurance premiums before you contribute to RRSPs. There will be no retirement if you have a stroke or a heart attack or die in a car accident when you have a mortgage, kids going to university and another 40 years of life to live. We assist with life and disability insurance and being an independent agent we offer broad product choice for the best prices. Don't delay – life insurance gets more expensive every six months closer to your next birthday. Call us today for a review of your coverage and any necessary new quotes.

Get someone else to do your tax return.

$200 or less should be all it costs for a basic return to be prepared for you in April. Get them to do the tax return and leave the serious tax planning to us – we offer it for free as part of our core advisory services to you – take advantage of my advanced tax training as a Chartered Accountant specialized in tax. If your tax return is taking you two hours, six hours, twelve hours or God forbid, more time than that in April, delegate to an accountant, pay a fair fee, and get that time back – play with your kids, go for a walk, whatever – put CRA on hold and take back your life. Tell your new accountant to call us for any missing tax slips, gains and losses info and other questions – once you approve of them calling me directly we don't even need to bother you – freedom at last!

Make children's savings easy.

This will raise your stress level – it could cost you $100,000 per child to put them through a major out of town university for four years, starting in ten years or so. Real stress however is turning 50, with the kids heading to school next fall, and you haven't saved enough for their tuition. Avoid it. Chances are your kid's post secondary education costs will hit before you retire. Focus on this first. Save $500 per month per child into an RESP and in trust for account, even if it means compromising your own retirement savings. Set it up on automatic payment directly out of your chequing account. Get used to living without this money. Start at the child's birth, buy a conservative, cost smart balanced mutual fund for fifteen years straight – don't even look at the investment statement for years. There is no need to if you are confident that we are watching on your behalf. When your child turns 16, sell the fund, park it in cash and wait – you're ready.

Having a nice home.

Last week I had to tell a couple to sell their home because the size of their mortgage was destroying their life. The mortgage was so big, for their wonderful Toronto home, that there was no money left for dining room furniture, a new car, vacations they deserve or life insurance premiums. The house had to go. They cried. I almost did. It's hard, but you can always count on me to be straight – no sugar coated promises to get you an unrealistic 15% stock market commitment every year. But sometimes, unfortunately, the answer has to be to modify your goal – are you living bigger than your resources permit? Sometimes you need to remove a limb to save a life.

For the modern Canadian family, earning a regular wage, paying off a 2010 mega-mortgage in 25 years or less, saving for retirement in a world where most don't have company pensions anymore, and putting kids through school where tuition inflation has been 300% in the last ten years in Canada, is a tall task to accomplish during a working career of 30 years. The mortgage is the main problem – they are so big nowadays that they may not leave enough money from your paycheque to contribute towards the other goals – we all have 30 years to achieve these three major goals – and the clock is ticking.

So what to do? Don't go overboard on real estate – limit your mortgage payment to a max of 1/3rd of your take home pay – be at zero debt by age 55 at the latest, preferably age 50 is the historical textbook norm. If one of you is on mat leave or will be on mat leave, don't count the second income when you buy the home in the first place. If you are far above these thresholds, are you finding yourself cash strapped and pressed for cash for the other goals? You may need to think about downsizing your real estate. I know, not what you want to hear – but you need more cash flow for everything else in your life. There may be no other way.

Now go one step further – skip the cottage. And say no to a property in Florida. All of this merely complicates your life, gives you more grass to cut, more things to track and ties up more money in non-income producing assets – useless in retirement. Besides, who wants to go to the same place year after year? The fewer big ticket assets you own, the better. Keep it simple.

And the last step – take a five year closed rate on your mortgage. Stop floating. This will eliminate the need to track mortgage rates, following the news, guessing what to do, fretting over when to do it. Email me your maturity date on the mortgage – I'll diarize it and we'll speak a month before maturity – free your mind.

My Sweet Career

Only you can decide what career is best for you – something that is a combination of what your skills are suited to, what you like to do, an income you need and perks you like/want. But then there is the commute. Daycare. Is there a pension plan? And do they offer lifelong dental?

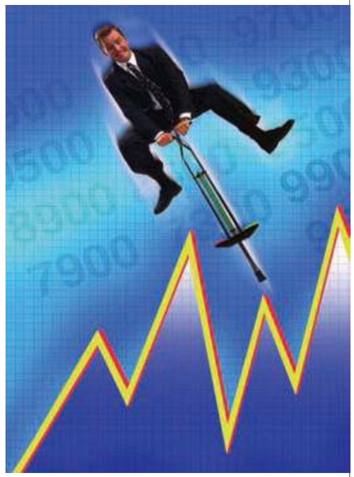
An employer with a solid pension plan can completely eliminate the need to save to RRSPs in some cases. Dental and health coverage may cost you $3000 a year in retirement. That's after tax dollars. If you have the ability to control your career – and I recognize that is rarely the case – seeking components of your career that go beyond the paycheque may be a great helping hand in managing your overall finances and getting ahead. It may mean working to age 70, yes age 70, but is it really work if you love it? Or maybe it's a career you quit early, to take job closer to home without the commute, part time – well past normal retirement age – giving you lots of extra money for trips, the kids and the latest tech toys.

Retiring on my terms

For most of us, accumulating a large pool of money, generally by age 60, is the key to our success for surviving the last 40 years of our life beyond that. Forty years of expenses – almost half a century – that's a big number. How can one ever hope to know how much money they will really need? Particularly when, in a world today, no one wants to retire on $30,000/year the way many of our parents did. Now we want to take $15,000 cruises, drive $60,000 vehicles, buy the latest Ipad and much more – well into our late 80's and beyond. Today's retirees have no desire to see their income drop just because they are retiring. And no one wants to be 75 years old and fighting over money.

What makes this worse is that few have fat defined benefit pensions anymore – we are truly on our own – what we save is all we have. And we need to save more than ever before, to have everything we want, at a time where it is harder than ever to save. Even safe GICs and bond investments, often a staple of investing in retirement because it is safe, are paying the lowest interest rates in half a century. So how do I get through this one Kurt?

Easy answer: don't retire until you are 110% sure you have enough for the rest of your life. That's where we come in – starting at around age 45, we will prepare Excel forecasts of your savings, pensions, CPP and other incomes to show what you are on track for in retirement. As you age, we update the retirement plan. We also help you to estimate your expenses, with a cushion, adjusting for inflation, after taxes to ensure you are in the ballpark for what you will need from age 60 to age 100. That's all we can really do – get you in the ballpark. There is no real way to know what gasoline will cost in two years, never mind 35 years. Safe to say that chances are, you will need more money than you think.



As your retirement goals approach and future costs of retirement clarify, we compare to the assets you have accumulated and here comes the hard truth – do you have enough? Yes, retire. No, don't retire. Perhaps cut back your work hours after age 55 though – that depends on your state of mind, finances, physical ability and career options.

If you are retired, and you are short of money, the choices are harder – even at age 70 I'd prefer to see you find a part time enjoyable job for some pocket money to take the pressure off your bank account than have you cut back your spending. You worked too long and hard not to enjoy life. Compromise. My favour Barista at Starbucks is over 60 – working later in life is normal today. Billionaire Ted Rogers worked into his 70's. Billionaire investor Warren Buffett is 80 and still putting in full time hours. Having even a small income source – longer – will reduce the pressure for your investments to have to produce every single year – something that is impossible to do – and guaranteed to cause stress if it does not and this is all you have.

The one solution I will not offer is to bet on the stock market to give you a dream retirement: being 70, watching the stock market everyday like your life depends on it, will ruin your retirement and perhaps even sadly, end your life too soon from stress. Life should be about more than whether the market will go up this year or not – you should not need to watch your money every day, every week or even every month - your finances are too tight if it comes down to this. Investments should never be your life support. They should be your cushion. Careers, pensions, annuities, real estate, businesses and GICs are your life support. The stock market should never be central to your success or failure financially in life. The older you get, the more conservative your investing should become.

Cash Flow Makes the World Go Round

You make money. You pay taxes. You distribute what is left to pay for essentials, fun, pay down debt and save. Managing cash flow among all the ways you can spend it is a challenge for many – among financial goals alone, knowing that you need money for retirement savings, children's savings and mortgage elimination can seem like a daunting task. Here is a short list of several ways to simplify cash flow management:

- Track your expenses quarterly using a basic software tool like Quicken or Microsoft Money. Know what you spend money on and set limits for frivolous discretionary outlays.
- Turn to us as your neutral, independent financial advisor to mediate differences in how to spend money with your partner or spouse. Avoid heated disputes.
- Stop using credit for every little thing – who cares about Airmiles – go back to saving in advance for big picture expenditures like renos, cars and trips.

- Make saving and debt payment a priority ahead of your other spending – set up automatic savings plans to the RRSP and RESP monthly and get used to living off the rest – raise this monthly amount every year without fail. You must be mortgage free by age 55 so work backwards to see what your payments need to be – downsize the home now if you cannot commit to this. A large mortgage can choke off money for most other goals and you cannot let this happen.
- You only need one bank account for basic chequing – try to reduce the number of accounts you have and the number of financial institutions you deal with. Generally minimize the number of financial instruments you have - one credit card per family, one or no line of credit per family, one mortgage, one set

of investment accounts located in one place. Reduce the need to follow so many different accounts. Consolidate what you have to get there.

Your cash flow is the blood of your financial system. It is the key to all your financial goals, near term and long term. For both day to day spending and occasional expenditures you must be accountable to yourself and family for all disbursements. Taking cash flow management seriously, each month, leads to greater control and success in all the other parts of your finances.

Killer Debt Go Away

Four credit cards. Three lines of credit. A term loan. Two car leases. The mortgage. So many types of debt that my head is spinning. Don't let this be you.

Consolidate all of your existing debts into your mortgage – it usually has the lowest cost and the long amortization allows you to make steady payments. Then close the lines of credit and tear up all but one of the credit cards, limiting that one to a $5,000 credit limit. All that debt may mean you were living beyond your means – I'm sorry but you cannot do this. Spend less. Period. Not sure how to cut your costs? Bring us your Visa bill, cancelled cheques and a summary of expenses and we'll help you objectively figure out what to cut. Stay away from lines of credit all together – go back to a term loan with a fixed interest rate and end date – you must be able to see the end point when you no longer have debt. Lines of credit don't do this. And car leases – are rarely the cheapest form of financing you can find. If you have to resort to a car lease, it may say a lot about the state of your finances in general.

Peace of Mind Investing

Eleven thousand mutual funds, two thousand stocks, Bonds, GICs, bond funds, linked notes, seg funds, wrap programs and ETFs. Credit unions, brokerages, banks, insurance companies with thousands of advisors offering a variety of services, for different fees all with different approaches. Long gone are the days of 8% GICs and a smooth retirement – for the first time in half a century. And the stock market – the new stock market, flash crashes, where 75% of all trading is now done by robots in a billionth of a second worldwide – how do I get ahead?

There are some easy steps we can all take to guarantee a smooth investment ride over our life:

Strategic investment planning – make sure your investment portfolio reflects your stage of life and investor sophistication – if you don't understand what you own in your portfolio, you shouldn't own it. Limit your stock market percentage exposure to one hundred minus your age (100 – age) and ask why you need any at all. Stop questioning the return on low paying bonds – buy them for stability at any rate – they have beaten the stock market one in every three years for the last one hundred years. Tie investment plans to your specific goals (e.g. retirement, children's school costs, a new car next year). Have a financial plan before you have an investment plan so you know the min / max of what you need for investment returns to achieve goals.

Dynamic investment planning – possibly the most important part of investing – rebalance the ups and downs of your portfolio, all accounts, back to your starting asset allocation (e.g. a 50% fixed income, 50% stock market mix) once a year or as warranted. Sell the profit but don't sell the core position. Reinvest in the under-weighted category and sell profit on the products / asset classes that have risen substantially. This forces you to "sell high, buy low". Keep emotion, your personal opinions of the world and newspaper headlines out of it.

Tactical investment planning – only purchase the highest quality securities, control taxes and fees which are the only natural drags on performance, own a handful of funds or ETFs only – and if you prefer stocks, then 18 to 30 stocks. Diversify by asset class, style, capitalization, currency, industry and money manager. If you can, avoid individual stocks all together, as we are seeing that business risk on single companies can destroy years of good returns in a brief moment. Diversify this risk away through managed products.

Structural investment planning – streamline your investing by using one planner / broker / advisor for all of your investment accounts and build a master plan with single focus. Review the plan once a year, thoroughly, and turn off the business news entirely for the rest of the year- don't even open your monthly investment statements, just shred and recycle them for 11 months of the year. Focus on a single statistical rate of return for the account overall and leave the details of product vs. product analysis up to us.

Outside the box considerations: Revisit long out of vogue products like annuities to provide guaranteed lifelong pensions to cover off the bottom essential third of all of your expenditure needs in retirement. Plan to work to age 70, but part time, with no commute and doing something you love. Create a financial documents toolbox in our office – a central storage location in our office for your Wills, insurance policies, titles, and other key documents – and tell your family where they are.

Next Steps

If you are feeling overwhelmed, out of control or out of the know with your finances, let's set a meeting for 2011 and together explore how to make money management, across all of your finances, easy to do and focused on your goals.

The Wealth Management Practice of Kurt Rosentreter
Kurt Rosentreter, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, CIM
Senior Financial Advisor, Manulife Securities Incorporated
Certified Financial Planner, Manulife Securities Insurance Inc.

T: 416-628-5761 ext. 230 F: 416-225-8650
TF: 1-866-275-5878 (1-866-ASK-KURT)
kurt.rosentreter@manulifesecurities.ca
www.kurtismycfo.com