

Make no mistake: financial blunders cost

Every year Canadians make financial errors that cost them hundreds of millions of dollars. Lost retirement income or seemingly endless debts are just two negative consequences of these mistakes.

Lance Howard, a financial planner from London, Ont., says that one of the most common financial errors is failing to keep a careful eye on day-to-day spending. "If your family is in the combined income range of about \$120,000 per year, an unplanned purchase of \$100 now and then doesn't hurt; but if you are in the habit of doing this six times a month it will have negative consequences. We do a lot of cash flow management with our clients and we usually find between \$400 and \$700 per month that they can't account for."

Howard has also encountered many clients who think that diversification means having multiple advisors, multiple funds and multiple insurance policies. "One gentleman had \$40,000 invested in five different places. We also see many people with up to 30 different mutual funds. We do a lot of consolidating with these kinds of accounts."

Taking unnecessary investment risks is a common mistake, according to Vancouver-based financial consultant Malcolm Ross. "A lot of people take unnecessary risks because of poor judgment or bad advice," says Ross. "One client, a specialist physician earning a very healthy income, made a lot of high-risk investments. He came to me when he was 55 wanting to retire but his portfolio had lost 35% of its value in just three years. He could have met his retirement objectives through a conservative investment strategy but as it was he had only \$600,000 to fund his retirement at that point, rather than the necessary \$1.5 million."

Both Howard and Ross are members of Advocis, the professional association and accrediting body for financial planners. Advocis has listed some common mistakes in its booklet, *How to Choose & Profit from a Financial Advisor*. These include:

Saving while not retiring credit card debt

High interest rates on credit cards consume more disposable income on a monthly basis than net returns on investments. Using savings or deferring RRSP contributions to pay down your credit cards is a better bet.

Insufficient emergency funds

Advocis recommends that everyone have the equivalent of three to six months' salary in easily redeemed investments, such as Canada Savings Bonds.

Thinking in terms of pre-tax dollars

While many investors think in terms of pre-tax returns, remember that the taxman may take up to half the money earned from investments. Keep in mind, too, that different types of investments are taxed at different rates.

Ignoring penalty-free mortgage payments

Most mortgages permit a payment of up to 10% of the principal annually. If the mortgage interest rate is eight percent, the rate of return on the extra payment is equal to the mortgage interest rate and your marginal tax rate.

Not keeping up-to-date on regulatory changes

Shifts in government policy can affect investment decisions. For example, the recent lowering of capital gains tax rates has made investing outside an RRSP more attractive for Canadians in some situations.

Exceeding foreign content restrictions

The federal government sets limits on the amount of foreign investment that can be held in RRSPs. The cost of accidentally exceeding the limit is one percent per month on the excess amount.

Don't rob Peter to pay Paul: comprehensive planning works best for your money

Financial advisor Malcolm Ross enjoys helping his clients give their money away. "When I can help a client grow her portfolio and save significant tax dollars, while increasing her ability to give to charity, I feel much rewarded," says the Vancouver-based Ross of Invest-A-Flex Financial Strategies.

Last year, Ross was able to do all this and more for one of his clients to the tune of an \$8-million tax advantage over 20 years. Previously, the client's accountant had simply tried to fix a tax problem, but Ross's integrated planning approach achieved a great deal more.

"In this case there was no plan to help the clients achieve their overall objectives. I took the time to understand their corporate philosophy and presented a plan that not only enacted that approach but also built in efficiencies to the tune of \$200,000 a year in tax savings. They were happy to increase their giving ten-fold. I showed them how to give more and improve their overall financial situation at the same time."

In a case that is perhaps more typical, Winnipeg-based financial advisor David Christianson of Wellington West Total Wealth Management recently assisted a professional couple that was burdened with significant debt.

"They were a hot target for financial sales people because of their high income and they had been sold a variety of products," says Christianson. "But unfortunately no one had looked at the big picture. They were over-committed, putting a tremendous amount of money into illiquid financial products but not paying off their credit cards every month. The sales people had sold them products but had never really asked them what they wanted to achieve or what might be concerning them."

Christianson and his colleagues gathered information to develop an accurate, comprehensive statement of the couple's assets and liabilities. They then drafted a clear cash flow picture, detailing corporate income and expenses, personal income, debt-servicing costs and the net income available for living expenses. They reviewed these statements with the couple to help clarify their situation. By working together to implement the recommendations they were able to retire their non-mortgage-related debt (over \$200,000 total) within one year. They also made an extra 20% payment against the principal on their mortgage and reduced their income tax by over \$5,000.

"I projected that they could accomplish all this within two years but they were exceptionally motivated and managed to cut the time in half," says Christianson.

This couple was also over-insured by more than \$6 million. "We reduced the face amount of the policies without losing the equity they had built up and we also reduced the premiums significantly," says Christianson.

A comprehensive approach to your financial needs and goals is what sets financial advisors apart from those who consider only single issues, such as taxes, mortgages, insurance or estate planning. Your overall financial health, both short- and long-term, is always top of mind with a financial advisor.

"A good financial advisor should be willing to work with other advisors, such as your lawyer and accountant," says Ross. "It is by integrating all the elements that we add real value."

Lance Howard agrees. The London, Ont.-based financial advisor with the Lance Howard Group Inc. says that he 'connects the dots' for his clients. "We understand how pension plans, cash flow, mortgaging, insurance, trusts and wills are all connected. And we know when to advise you to see a lawyer or other professional."

Howard adds that clients also benefit from the fact that a financial advisor is objective. "Most of us carry some psychological or emotional baggage when it comes to financial matters, and couples often have serious differences in how they approach and handle money. Objective and knowledgeable advice can bring clarity and a sense of direction to these situations."

Working with couples poses an interesting challenge when it comes to the degree of risk each is willing to take with investments. Malcolm Ross says the willingness to take risks needs to be balanced against both the ability and the need to do so. "We analyze these factors separately for each individual and it often turns out that one wants more risk-taking and the other wants more security. We recommend that they come to terms with their differences and not allow one person's risk model to dominate."

There's a common misconception that comprehensive financial advice is only for the wealthy but anyone who is planning to invest can benefit from professional assistance. Understanding the mix of investment products that is right for you, knowing how much insurance you need, and helping you plan for lifetime goals such as home ownership, post-secondary education for your children and a comfortable retirement are all matters to be discussed with someone who can help you see the big picture. And while many advisors charge a flat fee to develop a financial plan, others work strictly on a commission basis, so it may not cost any money up front to obtain their advice.

But not all financial advisors are createdâ€” or educatedâ€”equal. Whereas the term 'doctor' can only be used by someone with a medical degree or a PhD, there is no legal restriction on the use of the term 'financial advisor'. There are,

however, credible designations, such as Certified Financial Planner (CFP) and Chartered Life Underwriter (CLU). These designations are awarded only to those who meet rigorous demands in terms of education, examination and ethics.

Membership in professional associations like Advocis (The Financial Advisors Association of Canada) also signals a commitment to consumer protection and ongoing professional education.

Choosing the financial advisor who is right for you is an essential first step in creating the financial future that you want. "It's like hiring an employee so make sure you have a clear job description and an agreement on how and when you will measure their performance," says Christianson. "You need to know what you can expect in terms of breadth of advice, frequency of contact and results."

You should be prepared to ask some probing questions and to back them up with independent research that can confirm designations and membership in good standing with professional associations. It's also a good idea to ask whether the advisor has ever been the subject of a disciplinary action by any regulatory body or industry association.

When you meet with a potential advisor, ask questions about how they are paid and whether or not they have any conflicts of interest. Consider independent research into products the advisor may recommend.

Lance Howard advises clients to read through the prospectus from any fund company he recommends. "These documents are actually quite informative. Well-educated clients usually mean better and longer relationships. We put a lot of energy into educating the client up front."

Part of determining who you want to work with comes down to comfort, says Malcolm Ross. "The advisor has to be willing to build a relationship with the client and that takes time. You don't want to feel hurried or uncomfortable asking questions. And if the advisor is trying to convince you to do things you don't fully understand or aren't comfortable with, then it's good to keep looking."

It's also important to consider whether the financial advisor you're considering works with clients in your 'snack bracket'. Some advisors focus on small- and medium-sized business owners, some on middle-income clients and others work only with the wealthy.

And a comfortable relationship has to work both ways. Lance Howard says that he won't book a second meeting if the potential client doesn't follow through on assigned 'homework'. "We send potential clients home from the first meeting with a lifestyle kit that contains reading material and lists of items needed for the next meeting. There's no point in continuing the relationship if they aren't willing to put in the necessary effort."

Howard also turns down people who are looking to make fast money. "These people are only looking for hot stock tips and think that the rate of return is more important than deposits."

While the role of a financial advisor is usually to encourage clients to save, many find that older clients, in particular, need encouragement to spend their hard-earned money.

"Most of our clients in the older generation have been very fiscally responsible and are reluctant to consume their capital in retirement," says Malcolm Ross. "We sometimes have to encourage them to get out and enjoy life while they're healthy. So we ask what quality of life they want and what their dreams are. We might suggest that perhaps this is the year to take that cruise or buy the car they've always wanted. The goals are as varied as the individual and it's our job to help see that those goals are realized."

Value counts when it comes to financial services

There's a common misconception that you can get good, solid financial advice free-of-charge. Well, think again. While not all financial advisors charge up front, they all need to be compensated for their time and expertise. Even the banks charge for investment advice, although it may not appear so at first blush.

The good news is that if you have a small amount of money to invest and don't want that initial amount to be dinged with a fee, you can still get a financial plan that looks at your entire financial situation before you invest a dime. The catch is that you'll be expected to do your investing through the individual who took the time to prepare the plan. He or she will then be compensated via a commission on any sales. The advisor will also receive an annual 'trailer', which is a smaller commission to compensate for servicing you as a client and keeping your business.

Is the financial advisor in a conflict-of-interest position here? If your advisor is qualified by professional designations such as CFP (Certified Financial Planner) or CLU (Chartered Life Under-writer) and is a member in good standing of a professional association such as Advocis, she is required to put your best interests first and abide by a strict code of ethics. This means that she must recommend the financial products that are best for the client and that the commission paid should have no bearing on her recommendations.

And while some financial advisors are compensated strictly on a commission basis, others charge a fee-for-service for the preparation of a financial plan. The fee is either charged by the hour, by the plan or is based on the value of the client's assets or income. Finally, some advisors are paid through a combination of fee-for-service and compensation.

Lance Howard of the Lance Howard Group Inc. in London, Ont. falls into the latter group. "I didn't want my business to be built solely around the sale of products," says Howard. "A lot of the work we do in financial planning has nothing to do with sales but rather, offering a comprehensive overview of the client's situation, along with strategic analysis. When we do make specific recommendations about the purchase of a financial product, the client is free to make that purchase elsewhere."

Howard finds this compensation system a good one for clients who want a second opinion on the recommended strategy. "We occasionally have people who want to purchase through someone else but who also want that strategic overview so that they feel more comfortable with their decision."

Sales commissions on financial product sales are sometimes paid up front (front-end load) or deferred and charged as a redemption fee. Service commissions are taken out of what is known as the fund's MER (management expense ratio). The

MER is essentially a charge that is paid to the fund administrators to cover management fees and service commissions. An advisor and a broker-dealer (the entity that actually makes the purchase) split commissions in a manner similar to the split between a real estate agent and his broker on the sale of a property. MERs are set by the fund company and range from 2-3.5%.

No-load funds, which are offered by some financial institutions and advisors, still carry a cost to the client in the form of MERs. An advantage of no-load or front-end load investments is that the client can move his money with no penalty to his account. With back-end load investments, the client must pay a deferred sales charge (DSC) should he wish to move the money elsewhere within the first five to seven years. The DSC generally starts around five per cent of assets and declines to zero over time.

Keep in mind that front-end load commissions are sometimes negotiable. And clients who have ongoing relationships with firms that manage their investments can also expect to pay service fees for assets under administration.

A strict fee-for-service financial advisory service is offered by David Christianson of Wellington West Total Wealth Management in Winnipeg.

"There are many commission-based planners that I trust completely and I believe that they always have their client's best interests at the forefront. There are, however, some clients who are inherently skeptical or don't know an advisor well or perhaps are just very cautious. For whatever reason, there are clients seeking financial advice on a fee-only basis."

When looking for a financial advisor who is appropriate for your means and situation make certain to discuss the compensation issue before you enter into a relationship. Reputable advisors will be happy to give you this information in writing.

The award-winning elite of financial advisors

Knowing that you have made a significant difference in the life of a client is enormously satisfying for any financial advisor. Receiving an award for that work from leaders in the profession is an added thrill that only a handful of advisors experience each year.

The Advisor of the Year Awards (AOTY) honour financial advisors who demonstrate excellence by playing a critical role in a client's financial health.

To be considered for the award, advisors must submit an actual client case from their practice that explains the client's financial situation and outlines the financial planning solutions implemented to overcome their challenges. Case studies are submitted 'blind', meaning that there is no identifying information about the client or the advisor. This protects client confidentiality and also removes any possibility of favouritism on the part of the judges.

A panel of industry professionals judges the submissions for depth, detail, accuracy and proven results. They look for a well-thought-out plan, coupled with high service standards.

"Our mission for the awards is to validate and celebrate professional advice," says Darin Diehl, editor of Advisor's Edge magazine, which, along with its French-language counterpart Objectif Conseiller and companion Web site Advisor.ca, organizes and runs the awards' program. Five awards are presented annually to advisors from five regions of Canada.

"The true financial professional can make a huge difference in the life of his or her clients," says Diehl. "We want to acknowledge the accomplishments of those individuals."

Diehl adds that the awards program is also instructive to the profession because summaries of the winning case studies are published. "It helps to set the bar ever-higher in terms of achievement within the financial advice industry."

David Christianson, the 2002 AOTY winner for the Prairies region, found that the application process for the competition gave the greatest value to his team at Wellington West Total Wealth Management in Winnipeg. "It forced us to sit down and list the benefits we had provided and the goals the client had achieved," says Christianson. "The process reinforced our belief in the value we add and in our capabilities. We know we accomplish great things if we take the time to find out what people really want and then develop a specific plan to help them reach their goals. We're even more committed to that process now."

Ontario region winners for 2002, Lance Howard and Patrick Keyes of the Lance Howard Group Inc. in London, were delighted to be acknowledged by their peers

for outstanding work. "And our clients are also excited about it because it confirms that they are working with an excellent team," says Howard.

The AOTY competition is open to all advisors across Canada who provide one-on-one financial advice to their clients as part of their services. Diehl estimates that there are 40,000 to 50,000 such advisors across the country.

The awards create a buzz that not only promotes winning advisors within their own firms, but also generates client referrals. Past winners have been featured in articles in major daily newspapers as well as on television and radio.

Advocis: synergistic renewal in financial services

Informed and conscientious advice about money matters is vitally important. Otherwise, how can you hope to make sense of the myriad of investment products, insurance possibilities and mortgage options that are available?

That's why Advocis exists. Advocis is the brand name of The Financial Advisors Association of Canada. The organization was recently created through the merger of the Canadian Association of Insurance and Financial Advisors (CAIFA) and the Canadian Association of Financial Planners (CAFP).

Advocis is a leader in professional education for life insurance and financial advisors. This education and the professional designations — including Certified Financial Planner (CFP) and Chartered Life Underwriter (CLU) — that back it up, offer assurance to the public that Advocis members are committed to professionalism and will put the interests of their clients first.

The Advocis name is derived from what its members do best — provide advice and advocacy. Advocis members advise their clients on the short- and long-term financial needs of individuals, families and small- and medium-sized businesses. Their services include financial planning, estate planning, tax preparation, tax planning and consultation on employee group benefits, pensions and retirement plans.

What unites Advocis members is the common activity of helping Canadians to realize their financial goals and foster financial security. And the Advocis positioning line — Listening First — under-scores that commitment to professionalism.

The history of Advocis mirrors the growth of the financial services industry in Canada. Originally founded in 1906, CAIFA was, for many years, the national professional association for sales intermediaries and advisors in the life insurance sector. But as the 21st century began, CAIFA began welcoming members from the mutual funds' and securities' sectors.

Since 1981, CAFPP has been the voice of the financial planning profession, encouraging professionalism and adherence to a code of professional ethics and providing its membership with ongoing benefits directly related to their individual practices.

As the financial services industry evolved, a merger between the two associations began to make sense and talks to make it official concluded with the creation of Advocis in January 2003.

Together, the two associations combine to provide professional development programs that extend from pre-licensing courses in life insurance and mutual fund sales to studies that lead to such designations as CFP and CLU, as well as more specialized titles and designations.

National, regional and local conferences and seminars, together with a significant publishing program, sustain the continuing education that is mandatory for all Advocis members. Advocis also maintains a Code of Professional Conduct and a supervised disciplinary process, through which members investigate, adjudicate and impose sanctions on their peers as required.

Advocis is a voluntary, not-for-profit association which represents 18,000 professional advisors and their clients from coast to coast. The strength of Advocis comes from its 50 chapters located in almost every Canadian city and the board of directors includes members from each of the five regions: Atlantic, Ontario, Quebec, Prairies and Pacific.

When you choose an advisor with the Advocis designation you are assured that the person has invested the time needed to develop his or her skills and will abide by the highest ethical standards.