WISE MONEY MOVES PODCAST
Episode 3: Start Where You Are

Kamal: Hello, welcome back.

Tracy: Last week you set off quite a chain of events. We are now hearing-

Kamal: The milkshake.

Tracy: From the milkshakes. I think Vancouver west side has run out. It's a lot easier to stop at the Dairy Queen than it is to actually start feeling like you're adequate when you're not. Just so you know, I think we've started a trend.

One of the things that Kamal and I, when we're addressing this whole confusing interplay between our psychological orientation ... We talked about this with the concept of enough with the numbers is there's two basic places that all questions emerge from. One is everything to do with 'will I have enough' and what we discussed last week is kind of 'if you don't have enough now, you're certainly not going to have enough in the future', because it's as much an inside job as it is an outside job. We're going to talk a lot more about this in the future. The second thing that people ask us is where do I start. How do I get going on this thing?

Kamal: Yeah and I know you're a big believer that financial planning is not all about the numbers. That there's some principles involved, some beliefs involved. So before we jump into the numbers part, do you mind talking a little bit about those principles and some do's and don'ts?

Tracy: Well, the first thing I want everybody to recognize is that wealth exists on a continuum. We alluded to this last time. Everybody is somewhere on that continuum. And I think it's really important to understand that a lot of us started farther along just by virtue of our parents, by virtue of what part of the world we were born in. I don't like anything that implies that everybody automatically has the same opportunity. Let's face it, Bill and Melinda Gates' kids have started out in a very different place than a child born of drug addicted parents in the downtown east side of Vancouver. So we have to approach this with a certain reasonable compassion for ourselves and others that this wealth continuum starts someplace different for everybody and where we are right now is different for everybody and where you're going to get to is different for everybody.

Tracy: Blanket statements about do this and don't do that have always felt a little disrespectful to me. I just want to put that out there to start with it. We're going to try to meld some of these things together, but we get that everybody listening is started somewhere different and they are somewhere different and they're going to get somewhere different. And that each one of us owns that journey for ourselves. That's the first thing that I would like to say before we even start on the five steps of financial planning is that everybody's somewhere and where you are is just fine because it is what it is and we talked about that. But not to get discouraged that the people around you are somewhere different. And in fact, a little wisdom from my own mom here who said to me and a couple of my best friends when I was in high school, if you look on the left of you and you look on the right of you and everybody's on the same path as you, one of you or two of you have got it wrong. I've been trained to be a weirdo pretty much my whole life.

Kamal: That's really good.

Tracy: Or to accept it. The other thing is once you find yourself on that continuum, the temptation is everybody else is ahead of me, I should've started sooner and we start into the insufficiency, inadequacy tyranny of those extra voices.

Kamal: And you try to jump to catch up.

Tracy: What happens when you jump?

Kamal: You miss the steps.

Tracy: And what happens?

Kamal: Then you make the mistakes.

Tracy: You make the mistakes.

Kamal: Absolutely.

Tracy: Or you don't have a strong enough foundation. You can't skip steps. You can't just start doing your mantras about your abundance and all that stuff we talked about. You can't pretend to be someplace that you aren't. The strength and power comes from acknowledging the reality and the practical considerations of exactly where you are today. We're just going to move along systematically step by step. Do you remember that movie, "The March of the Penguins,"?

Kamal: Yes.

Tracy: I love that movie. There's all these penguins right in the middle of the Antarctic and the swirling everywhere. Friggin minus 40 degrees there and all of them, they're all there, one in front and one behind.

Step by step, step by step.

When I feel bad about my life, I think about the damn penguins. And then I'm like, I'm a penguin. I got one job to do and that's to huddle myself up against whatever's going on and make the next little step and eventually I'll get to my fish.

Kamal: Fair enough.

Tracy: Eventually. If they can do it in the middle of the Antarctic, I can do it in the middle of Vancouver.

The third thing I think that is a principle behind the steps that we're going to get into today is we're blind. We're blind and we're blind to what we're blind to. And that's a bit discouraging when you think about it. But the possibilities in this are if you can find people to trust, to talk about this what is often a very sensitive area, our financial situation. But if you can find an advisor or you can put together a mentorship group of some kind or you can have a coach, somebody who you can tell the truth to who will help mirror back the places where you're blind. For me, the biggest resistances that I've had in my life are two fold. One is seeing the things that are holding me back and the second is opening up my life to somebody else seeing what's holding me back.

Kamal: So what you're kind of talking about is support, having a system of support or a network of support around you that can help you stand strong in those times of vulnerability.

Tracy: Yes.

Kamal: Or of fear.

Tracy: Yes. We've always said when we're working with our women, we're stronger together than apart.

Kamal: Absolutely.

Tracy: It's not as easy as it sounds either. It's not that easy to find people that you're going to talk to about your money. But it is the difference between you actually creating a fundamental life change and getting the exact things you want out of life and achieving those.

With that sort of as our background Kamal, would you talk a little bit about these five steps? Can you give us an overview to start with? And why we have the five steps of financial planning.

Kamal: I like a system. I like to have a framework.

Tracy: Yes.

Kamal: I like to have here's the box ... Here's the rules and then that allows me to put the information in proper slots and it organizes it for my brain and then it makes sense and it provides clarity for me. What I find is when someone's sitting across from me when we do it together, I can see that look in their eye of I get it because all of a sudden it creates clarity for them as well.

Tracy: Also an ownership, right?

Kamal: Absolutely.

Tracy: It's not somebody doing something to you.

Kamal: And the other piece is it's not from a place of shame, of I know I haven't done enough. I know that I haven't started saving early enough. I know that I'm close to ending my career and I used my money elsewhere. There's a lot of emotion that's attached to that and that can create a barrier to the first step. What I like to do is just get back to practicalities. All of those feelings, let's leave them behind and let's go through and let's go through the five steps.

Just really briefly, the five steps that we follow in the financial planning process, step one is where are you now. It's just looking at what are your numbers. We alluded to this a little bit in our last podcast about using the numbers, using data analysis, using really not simple, but tools to give us the information that we need to make some of these decisions. Where am I now, it has to do with you net worth and your cash flow.

Tracy: And what's net worth?

Kamal: Net worth is just two numbers. It can be determined by making a list of all the things that you own, whether it's savings accounts, investments, RSPs, TFSAs, real estate, all of those things-

Tracy: My shoe collection?

Kamal: Not your shoe collection and not your purse.

Tracy: Why?

Kamal: Because it can't be converted to cash.

Tracy: Okay.

Kamal: It has to be something that you could sell it and it could be converted to cash. The first step is just to make a list of all of those things and add it together, that's what you own. The second column, you just want to make a column and list everything that you owe. Student loans, car loans, how much your mortgage balance is, credit cards. And same thing, draw a line at the bottom and you add it up. You have two numbers, what you own and what you owe.

Tracy: What about I'm worth quite a lot in my life insurance policies for my kids. Where does that go on my sheet?

Kamal: That actually doesn't really fall on that statement. The reason is that you have to die to get that money.

Tracy: So my net worth is just when you're alive.

Kamal: Absolutely.

Tracy: Darn.

Kamal: It's stuff that you can get your hands on. It's something that you can sell and you can create cash.

Tracy: It is hard to sell when you're not alive.

Kamal: When you're alive. It's of no value essentially. That's why it doesn't ... But that's a common mistake Tracy. The other one is lines of credit. Someone might have a line of credit that's $40,000 that has a $40,000 limit on it and they think that that's something they own and they don't own it. It's just something that they can use to borrow more.

Tracy: If they have used it though, where does it go?

Kamal: Then it goes into debt. Because then you have to pay it back. Anything you have to pay back to somebody goes into that column that you owe. The net worth is just taking what you own and subtracting what you owe.

Tracy: So assets minus liabilities equals net worth.

Kamal: Absolutely.

Tracy: Should I be checking everyday?

Kamal: No, usually we say about once a year.

Tracy: Okay.

Kamal: Do that exercise and whether it's just on the back of a scrap piece of paper, an envelope, it doesn't have to be fancy, you don't need to use a lot of spreadsheets if your situation is quite simple. But just do the exercise because what it does is it just gives you a starting point and that's what we need. The first step in the financial planning process is knowing what your starting point is.

Tracy: What if I don't like my starting point? I'm just telling you what I've been hearing. There's a reason people don't do net worth statements.

Kamal: And actually you're really ... That's so true. People avoid doing this exercise because again the emotions come in and the emotion of shame and of not enough. Back to what we spoke about in our last podcast. That prevents people from doing this first step that's going to actually get them out of the rut that they're in and make them move forward and make progress.

Tracy: Right.

Kamal: That's the first step.

Tracy: Okay. The second part, where am I now. What was the other piece you were talking about?

Kamal: Net worth is the first part.

Tracy: Okay.

Kamal: The second part is cash flow. Once you know how much you own, once you know your net worth, the second piece is how much money is coming in and how much money is going out.

Tracy: Okay.

Kamal: Why that's important is because at the end of the month you want to know am I spending more than I'm bringing in or do I have a surplus. That information is needed to move into step three and step four.

Tracy: Okay.

Kamal: Cash flow is again, it's just adding up all your sources of income from your job, if you have rental income, if you have any other income from investments, adding all those together. Then looking at your bank statement essentially is the easiest way to do it and see what you're spending. Then compare those two numbers. The question that you want to ask, am I spending more than I'm saving. That means you're in a deficit position. There's some concrete steps you can do. If you're spending less than your bringing in than you're in a surplus position, that means you've got some savings. Then there's some different choices that you have.

Tracy: Step two for us here at Sophia is different than other people's step two. Talk a little bit about that.

Kamal: Step two what becomes important after that analysis is done is to make sure that you have cash reserves and sort of preparations for unforeseen expenses. Cash reserve or its protective measures is the other piece that we talk about.

Tracy: Gold bars.

Kamal: No, not gold bars.

Tracy: How come?

Kamal: What you need is ... These are for resources for expenses that come up unexpectedly. If your child gets sick and they need a special type of physiotherapy that they need to go see, they might need money to access that. It's not something that can wait, it's immediate, so cash reserves is the money in the bank, it's your savings that you can access within a day or two. It needs to be liquid and that's a word ... Liquidity just means that you can access it when you need it and you don't have to ask anybody's permission.

Tracy: I would think it's not just the problems that we face, it's also the opportunities.

Kamal: Absolutely.

Tracy: We want money in the bank in case we have an opportunity to go with Julio to Spain on a private jet and we want to pay our own way.

Kamal: The big one I get is, Julie last week came in and she's found a fantastic home. She needed a deposit ... A five thousand dollar deposit.

Tracy: Okay.

Kamal: She just went to her bank, wrote them a check and it started the process. Those types of instances are really important. The other piece is protective gestures, which is often involves some type of life insurance. Especially for young families when you're starting out and you have debt and you've got young children, what you want is that if something were ever to happen to you, you want to make sure that they're protected. Cash reserves and possibly there might be a need for insurance, so there might need to be a review of discussion with somebody as to whether that's appropriate.

Tracy: Step three.

Kamal: Step three is where you're going. Not the milkshake store.

Tracy: If I can interrupt, one of the things when I used to work at Smith Barney, I used to do these visioning workshops.

Kamal: Okay.

Tracy: We would all go in on a Saturday morning, there'd be 30 women and we'd have coffee and donuts, no milkshakes. We'd do these great boards, these big visioning boards of everything we wanted in life. A lot of people still do that and it's good. It's quite a high really. But to me, that whole thing is a bit of a racket as well because a week later you see this picture on your visioning board of a woman with dollars coming out of her ears and Julio in the background and the private jet and tangoing along the aisles with champagne in your hands. You're looking at your crappy little life where you're trying to get to work on time and you're in your two bedroom apartment that looks like a cyclone hit it. I think that visioning is very different than this step.

Kamal: Yeah. Visioning is too big picture. It's too big. When we're doing again what we're trying to do is develop clear steps and a framework and it doesn't fit. What we're looking for in terms of where do you want to go is we're looking for about three or four goals. Here at Sophia, we ask our clients to limit themselves to about three or four.

Tracy: How come? The world's your oyster, isn't it?

Kamal: It is. But simplicity and clarity. It's really difficult to keep clear and keep straight in your head why I'm doing these things. If you've got three or four for now, they can change, so you're allowed to add to them and you're allowed to subtract from them. But that gives us a starting point of the strategies that we need to put in place.

Tracy: My mom tells a story ... Used to tell me a story about when she was working with a group of young women lawyers and they were very much into this visioning and you can have it all. She would ask them to write down their goals and they would have 18 goals and 20 goals. She was like whoa! In her generation you really just pay the rent and be able to get the kids to school on time was pretty big. She would look at this and she would look at these women and she would say you can have it all, but you're going to do it sequentially. She always had them do the same thing, just pick two or three at the top, exercise that discernment and that judgment, the judgment of choice of where your energy and your focus is going to be on.

Kamal: Absolutely. The other piece that's really important with those three or four goals is a timeframe. Each goal has to have two things that are really important. One is how much is it going to cost and the second one is when do I want it by, what's the time horizon, which just means the time frame of when I need that money by.

Tracy: Right.

Kamal: That piece again, when people set goals and when they're talking about visioning and stuff, often it's pie in the sky or someday. No, that doesn't work in financial planning. We can't plan for someday. Some specific examples of goals are I'm going to buy ... my car is getting old, in two or three years time I'm looking for a replacement vehicle. We've got a specific goal. I know that car's going to cost maybe $30,000, three years time, that's a goal. Another one might be that I want to purchase an apartment. I think sometime next year I'm thinking of purchasing an apartment. Then you'd ask me how much do you need. I have to figure out is it going to be a one bedroom apartment, is it going to be a three bedroom, is it going to be a penthouse, where's it going to be. I need that dollar value.

Tracy: To me that type of vision is powerful. Because that vision is a picture of something that I have attached the intention of a goal to. I'm actually seeing it, I'm actually looking at how many rooms in my head, I'm starting to formulate the vision of it. Which is really different than me in Hawaii with Julio. To me, that's where visioning and practicality hits.

Kamal: Exactly. That's what I was going to say. When you look at it from a point of just data and information, the more detail you have, the more you can envision it and then it becomes ... Then you can attract it and abundance and all those other feelings come in. But you have to be specific. The specifics are timeframe and amount when you're gonna want to achieve that by.

Retirement is another goal, which is really common and it depends on how old you are and how long you want to work til.

Tracy: Right.

Kamal: That could be something for a 30 year old could be 35 years away and for a 55 year old could be 10 years away or 20 years away. All the goals and the timeframes are going to be really, really personal. This also is something that I see a lot of mistakes and I know you do as well when clients come in to us, they always say my brother-in-law said ...

Tracy: Brothers-in-law are the bane of my existence.

Kamal: The stories we hear, you should always collect your CPP, your Canada pension at age 60 because you want to get as much as you want ... as you can from the pension system.

Tracy: You need REITs.

Kamal: Yeah. Limited partnerships.

Tracy: Brothers-in-law say weird things.

Kamal: Absolutely. Out of context, that makes no sense. You really need to be clear on your goals and then we can figure out does this fit or does it not fit. That's the second step.

Tracy: Third step.

Kamal: Third step, sorry.

Tracy: Okay, systematic. Step four then is how are we going to get there.

Kamal: Absolutely.

Tracy: That's the next question that emerges from that.

Kamal: That's the fun part.

Tracy: That's your fun part.

Kamal: That's the strategies. It's also the power because that's how do we convert those first ... Step three about what it is we want to achieve, how are we going to get there. The strategies piece becomes really clear once we have clarity on the first three steps.

Tracy: You and I always have an issue with people jumping to strategy. You should buy REITs, you need gold bars. We're like have you done your first three steps, do you even know what your timeline is and what your goals are. Because in the newspaper and online constantly they're talking jump immediately to strategy.

Kamal: Absolutely.

Tracy: They're talking about product. As soon as somebody wants to talk to you about a strategy or product without knowing anything about you, you are being sold to. You are not being advised. This is outside of what is a proper fundamentally sound financial planning process, just note to self.

Kamal: I often get asked that is what stocks should I be buying. That is not the question to be answered.

Tracy: These are typical conversations when we go out.

Kamal: Absolutely. It's no. That is tell me more about yourself, tell me what it is that's important.

Kamal: Strategies have to do with matching the investment solution with the timeframe of your goals. Remember we talked about timeframe and money being really important as part of the goal, this is where it matters. One of the most frequent places of error is when people use the wrong strategy for the wrong timeframe. In our world, one to three years is a short term timeframe.

Tracy: Yes.

Kamal: Anything that you're going to need, money that you're going to need or spend in three years time or less, it should be in a really, really guaranteed savings type of a product. High interest savings account, a money market fund, maybe a one year or a two year GIC. Not a five year GIC if you need the money in two years, but something that's matched to the time horizon. If the goal is five years, five to six years away, retirement let's say, if it's 10 years out, then you've got a longer time you want a little bit more growth. Then you can invest in something like the stock markets or bonds and stocks and have a well diversified portfolio. But what I see is what typically happens is someone says I'm saving my money, I've got $10,000 and I want to invest it in the stock market.

Tracy: Yes.

Kamal: Without knowing ... Not knowing that I need this money in two years time. There's volatility in the stock market and the reason we don't invest in the stock market unless we have a minimum of five to six year time horizon is because of the volatility. We have economic cycles where periods of growth are followed by downturns. History shows us and research shows us that if you have a time horizon, if you're willing to keep the money invested longer than six years, your chances of having less than what you put in are virtually zero.

Tracy: Interesting.

Kamal: That's the reason that you don't use short term money in the stock market.

Tracy: Fifth step.

Kamal: Fifth step is once all that's in place, you got to review and monitor.

Tracy: Okay.

Kamal: Once a year, you got to at least once a year look at your statements, go in and talk to your advice provider and tell them your goals all over again and repeat the process. Make sure those strategies match the goals.

Tracy: Okay. How often should I be looking at my statements?

Kamal: Your monthly statements, are you asking about monthly statements?

Tracy: Yeah.

Kamal: Monthly statements, they don't give you a lot of information. Sorry, they give you information, but they don't help track where you are.

Tracy: Okay.

Kamal: The only way you can track where you are is by going through the five steps of financial planning. Where was I a year ago, what was my net worth, what was my cash flow and then do that exercise again, what's my net worth now. Hopefully, overtime your net worth should start to increase. That's how you measure progress.

Tracy: Right. The five steps of financial planning can be applied at any stage of your life. We can look at if when you're just graduating from university, we can look at it when you're in your mid-20s and you've got your first big job, your A level job as I call it. You can do it and apply these five steps to retirement, you can apply it to your divorce and your divorce planning, selling a business. This structure is very robust and the architecture has application at any time of your life and overtime. It is a discipline actually that allows you to take back control of your financial situation on your own terms. It helps you stay on track and it helps you cut out the distractions as we talked about before.

Kamal: All the noise.

Tracy: There's so much noise, brothers-in-law, milkshakes, GPS going awry, what you hear in the news. But if you just remember I've done my steps and I know what I'm doing and I'm sticking to it, I think that leads to great piece of mind and the financial empowerment that we've been talking about.

Tracy: Perfect.

Kamal: Thank you for joining us today on our podcast and we look forward to seeing you again.

Tracy: Bye.

Thanks for listening!

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Data driven, fact checking, translator of complex economic info into understandable plans, champion for diversity and fairness …"Numbers matter. People matter."

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Motivator, truth seeker, wisdom sharer, protector of those who are vulnerable and champion for those who try…"It's not about the numbers but the stories we tell ourselves about those numbers."

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