WISE MONEY MOVES PODCAST
Episode 09: Your Money Strategy

Tracy Theemes: Hello, I'm Tracy Theemes.

Kamal Basra: And I'm Kamal Basra.

Tracy Theemes: Welcome to Wise Money Moves. This is our ninth podcast and we're going to be talking to you about your money strategy today. We're going to go back a little bit just to give you some context here. I always think, Kamal, about when we're going through concepts that there's like trunks and branches, trunks and branches, and if you just go down the trunk when you're trying to learn something, it can be very boring. So we'd go in skittle out and go out on the edge of the branch and we'd come back in. The tree that we've planted and that we believe is fundamental to a solid financial strategy is the five steps of financial planning. And if you recall, they start with, first, answers the question where am I now?
Step number two is do I have cash reserve and protection? Step three is where am I headed? Step four is how am I going to get there? And step five is how am I going to keep on track? So we've gone in pretty deeply to cashflow and net worth and I think most of you from what I can see have downloaded your cashflow worksheets from the Sophia Wealth Academy website and some of you have been taking a stab at your net worth as well, which of course is helping you determine what your cash reserve should be. So today we're going to jump into step three, which is where am I headed. Interesting, Kamal, that everybody likes to start here. I think that's one of the things that we've noticed in the media and in all those prosperity workshops, people are like, figure out where you want to go and do your little vision board and all of that.
And that's really not an appropriate process if what you want is a strong foundation. A strong foundation has strategy built on some fundamental principles and the fundamental principles of step one and two is understanding where you are and how to protect yourself.

Kamal Basra: And I think the disconnect is between the strategies are really, they're interesting, they can be mind, thought-provoking, but the piece that, the step one and step two are what bring it home. That's that personal piece of how does this relate to me? How does this fit into my life? And that's the biggest disconnect that we see with the information that's out there. And so it's easy to skip over and we see it all the time, but it's really, really important.

Tracy Theemes: Well, it's also, I mean it's like getting a gym membership. You know how good you feel when you get a gym membership. It's just like, yes!

Kamal Basra: I'm going to do this.

Tracy Theemes: In six weeks, I'm going to start this program. And that's the thing with strategy. If you don't analyze what your life is like and what are the things nutritionally, for instance, or what is my schedule like that either is going to hinder this or support it. Again, it's sort of setting yourself up. But I did just hear an interesting thing about marital therapy yesterday, that 80% of couples when they make their appointment for a marital therapist, it's their most optimistic period of their relationship, before they start the therapy. Just knowing they're going to do it.

Kamal Basra: There's hope.

Tracy Theemes: There's hope, yeah, and you haven't had to get into the work yet right?

Kamal Basra: Yeah, yeah.

Tracy Theemes: So anyways, we are well supported here. Most of you have got your cashflow, you're letting it burble up what the dynamics are in your spending patterns. You've got an idea of your cash reserves.
Step three now is how am I going to get, no step three-

Kamal Basra: It's where am I going?

Tracy Theemes: Where am I headed? Where am I headed, Kamal? To the wrong place, clearly, and I even know the steps.

Kamal Basra: Do you want to go to Kelowna? Or do you want to go to Toronto?

Tracy Theemes: Well, clearly, I was like, I wanted to figure out where I'm going, if I'm car or train. No. Okay, so where am I headed? The three components of any goal, and we've talked about this earlier, is what is the objective that you're establishing? How much does it cost?

Kamal Basra: The objective can be things like education for my kids. It could be retirement, it could be tax planning, it could be my estate. I'm worried about my estate. So the goal is, okay, how do I reduce taxes? So it could be a multiple array of goals that's different for every single person.

Tracy Theemes: So, that's exactly why. The third piece is your timeline, because obviously if your timeline is in six months I want to be able to afford a trip to Disneyland with the kids. It's a very different timeline than I want a legacy when I die so that all of my 18 children can get a house in Vancouver. The timeline there is going to be significantly different. So there's another thing that you and I, typically when we're coaching people, is we actually believe in keeping it to two or three goals as well. At a financial level. Anything more than that is very difficult to focus on. And I think in this day and age, focus is one of the most powerful energy sources. It's like your battery pack is your focus and one of the reasons why so

many of us are leaking power and feeling so powerless is because we're all over the place.
It's just like, it's the have everything now time.

Kamal Basra: And it's trying to do everything with one instrument.

Tracy Theemes: Right.

Kamal Basra: And so sometimes not having that clarity and that simplicity of "here's my three goals, just having them all kind of mushed together into one, well my plan, my financial plan should do A, B, C, and D". Well no, it has to have specific details and different components will be doing those different things. If you try to do everything with just one type of strategy, that's where errors can happen as well.

Tracy Theemes: So for this, where am I headed? We basically are going to suggest that you keep to two or three financial goals, that for each one of those financial goals, you map out exactly what it is, the description, how much it costs, and what the timeline is. When you get those things identified, then and only then can you move to step four.
Now, just as an aside, can you see how short, a little talk this is? Whereas in the regular world, this step takes everybody's time because they're doing all this imagination and creativity. And for us a lot of your energy has already been spent on steps one and two and as we move forward you'll see step four is where we want your focus to go once you have established. So step four of the financial planning process is not what I said before, it is how am I going to get there.

Kamal Basra: And finally, that's where the strategy comes into play. That's where we talk about should I use an RSP? Should I use a TFSA?

Tracy Theemes: And what are they?

Kamal Basra: And what are they? And should I be putting my money in the bank and putting it in a savings account? Should I be buying a stock? Should I be buying a tax shelter? That's where the strategies come in. But unless you do that previous work, the strategies are meaningless.

Tracy Theemes: Right. So basically in step four there's primarily three different categories of strategies. The first is getting out of debt strategy. This would be the three most common. The second would be the savings strategy. And the third is going to be the investment strategy. So let me just talk about that and the cashflow continuum that we addressed before. So in debt we've already talked about, that's when cash coming in doesn't meet cash going out for long enough periods that you end up with a stack of sort a negative net worth or a negative cash flow, so you're in debt. And there are many strategies that people can work with to get out of debt and many professionals that you can work with.

This one might be a place when we addressed this when we were talking about different professionals. Kamal and I, in our work at Sophia, we don't deal, our clients by and large do not have debt. That's not one of the places that they're trying to get out of, perhaps in our pro bono caseload. But in general, by the time you come here, you've managed that part of your life. And we can do a whole piece on that.
But a debt strategy might be, we're going to hire a money coach, we're going to cut up all of our credit cards, we're going to take our kids out of this particular school that costs us $200 a month. And you start looking and your working on your cashflow and pushing and pulling it, sometimes with advisory help and sometimes not, until the numbers start to work that not only they even. But you're actually starting to replace and pay off that debt, so, that's its whole extra world. The second category is the savings plan because savings, to go to the third step of investing, you have to have surplus.

Kamal Basra: And you always have to have reserves before you can ever invest anything.

Tracy Theemes: Which is back to that step two.

Kamal Basra: Absolutely. So you've got to build up the reserves.

Tracy Theemes: So you've got your reserves done, now we're on step four, so now we're building up surplus. So this savings is the savings that precedes your investment strategy, so you set your goal on that. And that has a lot of the same similarities that we were talking about debt management. It is a cash flow exercise. When, if you've got your debt, that's not your issue, you've got savings in addition to your cash reserve from step two, now you design your investment strategy.

Kamal Basra: And the investment strategy then goes back to, again, what are your goals? And you're going to have two or three investment strategies to meet each of these goals.

Tracy Theemes: Tell us more about that.

Kamal Basra: And exactly what you said, Tracy, that you need a time horizon. So when do I need this goal accomplished by? So if it's something like, one of the common ones we see is I'd like to buy a car, I'm going to replace my car in the next year or two.
So, the second part of it is, okay, how much do you need? Do you need $8,000 for a used car? Do you need $20,000, do you need $45,000? So you attach a dollar figure to it. So I need it in the next 12 to 18 months, it's going to cost me $30,000, let's say, and how am I going to save for it?

Tracy Theemes: So that's a savings goal, I think. So now we're at investing, so we've got our car.

Kamal Basra: Investing. So, that's the short term goal. So this is where people make the mistake. It's the time horizon. So if it's a short term goal, it has to be matched with the short term investment. If it's a medium term goal, which is between

three to five years, it has to have medium term investments. And a longterm goal, which is six plus years from now, what you're going to be using is long term investments. And the long term investments are things like stocks and bonds and those types of investments.

Tracy Theemes: So maybe you could talk a little bit about what basic asset allocation is. Something that people come across when they're going into their advisor or the mutual fund person at the bank or credit union. And they're throwing these numbers around about, you need a 60, 40 or you need this and that. Can you explain what does asset allocation mean, when it's coming to an investment? And define some of the pieces inside?

Kamal Basra: Yeah, so oftentimes when you go into the bank, they'll walk you through a questionnaire and it'll talk about what your risk tolerance is. So that's a word that's used a lot. And what they're trying to determine is how to match those appropriate investments. Asset allocation simply has to do with what's in your investment account and how much of it is in cash, how much of it is in bonds or fixed income, and how much is an equity type investments, which are your stocks.

Tracy Theemes: So there's basically three primary asset classes that make up an asset allocation strategy.

Kamal Basra: Exactly. Exactly. And so when somebody talks to you, when an advisor talks to you about what mix do you need in your portfolio or here's the mix that we're going to put into your portfolio, typically what they're talking about is the percentage of those three types of investments. And then beyond that there's also other types of criteria that we look at when we build a portfolio. We don't want all of the, for example, there's different types of bonds, so there's-

Tracy Theemes: I think you're going to freak everybody out here.

Kamal Basra: But, it is good to know.

Tracy Theemes: Can we go in and define what a stock is, what a bond is and what we mean by cash? And why would we have three primary asset classes? What's the importance of those asset classes?

Kamal Basra: So each one behaves very differently. Cash, it's not going to change in value. So you put $10 in your bank account, it's going to be there, plus maybe a little bit of interest. Bonds, it's a debt instrument, you're loaning your money to somebody. Somebody is borrowing the money from you. And with every bond there is a maturity which tells you when they're going to pay you back and there's an interest rate that tells you, for borrowing your money, they're going to pay you in return interest, 2%, 3% whatever it is. So a bond is very predetermined in terms of what the criteria are. The third category are equities or stocks, and those are businesses essentially is the easy way to think of it. Is you're buying into a business that's out there, that has publicly traded, issued

shares, and you're buying a portion of that business. And so then once you've figured out the allocation.

Tracy Theemes: How do I figure that out?

Kamal Basra: So, that's where the advisor comes in. You need that expertise of how much proportions of each of those will match up with your goals.
What we do know is that because each of those three different classes have different properties, we can build a portfolio around that.

Tracy Theemes: What kind of properties?

Kamal Basra: So cash is fixed, it's stable, it doesn't change in value. Bonds, they'll pay a small amount of interest. They may fluctuate in market value, a little bit. Stocks will change in value based on the company's earnings, based on the company's dividends, based on the performance of that company. So there's more volatility, more change in price. But the positive side of using stocks in a portfolio is that the growth rates are higher and right now where interest rates are at an all time low. If you were to put money in a bank and purchase a bond, a government bond, the rate of return you're going to get is maybe 1%.

Tracy Theemes: So why wouldn't then, if I want to go to Disneyland in six months, why wouldn't I put all my money into stocks? Because then I'll have more money to spend with my family in six months.

Kamal Basra: Because the growth rate is there for stocks. It's a higher growth rate. But there's also more volatility. And what we've seen, the properties of stocks, is that if you have a long holding period, which is six to 10 years, you're going to be fine and the volatility will average out. But if you've got a short holding period, which means if you're only invested for six months or 12 months, there is a chance that you could end up with less money than you've invested. So there's a downside risk to that.

Tracy Theemes: So there's more volatility, I guess what you're saying is, that I don't know in six months whether the market's going to be up or down and we don't want me not to go to Disneyland.

Kamal Basra: Absolutely.

Tracy Theemes: Right and you're saying there’s a chance of that if I was just in stocks.

Kamal Basra: So that's where that time period, the time horizon is key. If the goal is six to 10 years away, absolutely we can use stocks and get that higher growth. If that goal is two years away for that car, no, you don't want to be putting that money into stocks. You want to have it in that interest bearing or something like a term deposit or a short term bond or a high interest savings account. So that's where the matching of the goal has to match the type of investment and the type of portfolio.

Tracy Theemes: So let's back this out again. You were throwing out a bunch of different words there. For cash, so you're not saying that cash is something that I put in a shoe box and just hang on to, you are talking about putting it in the bank. If I put it in the bank, what happens?

Kamal Basra: So you've got some options there. You can put it in your savings account or a checking account. And right now it's less than 1% of interest that the bank will give you for putting your deposit with them. You also have the option of doing a term deposit and so that's also called a GIC or a guaranteed investment certificate. And some of those are cashable, and so you could get a six month cashable term deposit that pays a little bit more, might pay 1%, and you can cash it after a certain period. So that might work for the car. And that might also work for short term goals.

Tracy Theemes: And where's money market fit into all of this?

Kamal Basra: Yeah, so money market is just short term instruments that have an interest rate attached that mature less than six months. So it is very similar to cash, it's fairly liquid depending on the instrument that you use, and it just gives you that slightly higher interest rate. But what you want to look into for that is liquidity. You want to be able to make sure that it's redeemable.

Tracy Theemes: Well the other thing I think is interesting about money market is that it's not something that the banks handle because they're the instruments and the buying and selling are on the capital markets, you have to be with a broker dealer, which is where things start to get a little trickier.

Kamal Basra: A little bit complicated as well.

Tracy Theemes: Yes.

Kamal Basra: So there's a lot of options out there and we're not going to be able to go into all the different types of bonds, all the different types of stocks that are out there. But just to know that, again, that fit has to be in your strategy. That fit has to be pretty precise and it has to link back to each person's goals.

Tracy Theemes: So I think in summary, one of the things that we've established here is if your goal is an investment goal, that the first step of deciding what your investment plan is going to be, what your strategy is, is to determine your asset allocation strategy. That's the term for it, which is the relationship of cash to bonds, to stocks. And as Kamal was saying, cash is very stable, the fixed income bonds piece provides some type of a greater return and the thing that's most volatile is cash, and that the percentage of those three working together has to fit the goal that was established in step three. So I think that's a enough for right now.

Kamal Basra: I think so too.

Tracy Theemes: Everybody's gone out to get their second cup of coffee, but these are the important fundamentals that will enable you and empower you to make decisions that are right for you.

Kamal Basra: Thank you for joining us on this podcast and we look forward to talking to you again.

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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From our first day in business at Sophia Financial Group, we made two promises: to deliver honest, effective financial advice with portfolio management services; and to be a source of financial education and empowerment for women.

We give one day a week of pro bono financial advice to anyone, regardless of their economic circumstances and we host free financial workshops in our offices and in the community.

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