WISE MONEY MOVES PODCAST
Episode 11: Staying on Track

Kamal Basra: Hello, I'm Kamal Basra.

Tracy Theemes: I'm Tracy Theemes.

Kamal Basra: And welcome back to Wise Money Moves.

Tracy Theemes: We are going to be talking today about the fifth step of our financial planning. Fourth, what do we call it? Financial planning foundation.

Kamal Basra: Foundations.

Tracy Theemes: Yes, and if you remember, I was actually laughing to myself because like sort of a grade three teacher, I'm still going to repeat what the context is of this fifth step and most of you all remember step one is where am I now, which is your cash flow and your net worth. Step two is do I have cash reserve and my protection gestures in place. Step three is where am I headed, which has three pieces to it; the what, the how much, and the when. Step four, which we talked about in our last couple podcasts, which is how am I going to get there, what is the strategy that I'm going to establish? And step five is how am I going to stay on track?

I would say in all of the literature and everything that you hear or read, this step is the least focused upon. Now what's ironic about this is that it's what we do most of the time. We don't get the excitement of checking out our cash flow and we're not sitting there devising our investment strategies. In a fairly secure well-lived, well planned out life most of us are maintaining it. It's maintenance and I think it's the, probably least sexy, least interesting part of financial planning and if we've achieved what we want to achieve with you, it should take up 95% of your budget for how much time you're spending on your finances. The rest, like we really talk about the devising of the strategies is, yeah, for a little bit that's, it's the wind in front of you, you're in the storm. But our goal is that it's going to be the wind at your back.

Money should be the energy that's pushing you forward. It shouldn't be the thing that's ruffling up your hair all the time.

So what do we mean by staying on track? If you've done all of those other steps, now we have to have some type of process or procedure that allows us to know if we're veering off our original objectives, we have to have a way of evaluating whether that strategy is working or isn't it working. And what we talked about when we're discussing common investment strategies, this is also where emotions and the management of emotions is more important than people think. What I find is that there's a lot of stuff that the data and the analysis and the charts and the graphs. Do you know what the chart or the graph is not what's going to get you in trouble as you're managing your money and implementing your investment strategy.

It's those pesky emotions to get you into trouble. So let's just back this out. The first thing when you're discussing staying on track is what are the metrics by which I judge success? And for me and my personal life, I'm finding that a particularly irritating question.

Kamal Basra: Why?

Tracy Theemes: Well, because I mean, I don't know. You know, it's so easy. Oh, you're successful. Yeah. By whose standards, I mean put me beside Oprah, you know, and that will, you shouldn't compare, well how am I supposed to know what a metric is? And I'm spending quite a bit of time personally just to say, trying to figure out what I think success looks like for myself as a human being at the end, what do I want to have accomplished? So for me, looking at devising a metric for investing seems a lot easier. It may be something as simple as some of the things come out I was addressing before, which is I need to get four and a half percent net return every year for 25 years with this investment strategy so that I can retire at the age of 94 and you're like, okay, how do I decide? It could be something numeric, like a rate of return. It could be how long you want something to take. But metrics, even investment portfolios and financial plans can be other things. It can be something like quantifying, I feel peaceful, I don't lose sleep anymore. And I have had clients that I, one of my metrics for success was that they had a budget of two days a month. They could lose sleep and pass that if it was two months in a row of over two days ahead to come in and see me. And I have the eight minute rule as well. You're allowed to fuss and worry about your investments for eight minutes. Past eight minutes, it actually starts to affect your physiology and you're actually contributing to poor health. Well, that's dumb. You know, if you're my client, come on in and talk to me at minute nine or call me because it's wasted energy when we could be addressing what the underlying issue is.

So a metric can be on a variety of dimensions. The importance of having that metric is, if you're not careful and you're doing things like, well, I was feeling pretty good because I was comparing myself against Marilyn. There's this girl, Marilyn in grade six and I always used to compare because she was just so below average, and this is disgusting to say, but I always felt kind of good next to her because my metric of success was that I had more going for me on any given day than Marilyn. Now that's an immature, reasonably disgusting metric of, of success.

Kamal Basra: I've got one like that when I go to the gym, if I can do more reps on a weight...

Tracy Theemes: Yes.

Kamal Basra: It makes me feel really good,

Tracy Theemes: But that's a good one, Kamal. Thank you for cooking. That's a good one. Not comparing yourself to one person.

Kamal Basra: I always have to have one person that I'm better than.

Tracy Theemes: Okay, thank you. That's, that's very, that's comforting.

Now, what I also know is that a metric can't be based on something you're reading or what your father-in-law said at dinner or what everybody else says is the right rate of return or how much volatility. It has to have been established in those previous steps.

So how are we going to do it? The first is I considered, there's sort of two types of records that you can have a plan, a tracking plan. The first is a personal policy statement and the second is an investment policy statement. A personal policy statement may be a dictation of your behavior under certain conditions. And we were just talking about one of our clients and she is looking for real estate. And every time something happens in the Vancouver real estate market, she freaks out and she says, okay, I better get in. I got to buy something now even if it's not right and my friends are telling me I'm wasting time and she goes into absolute panic and anxiety mode. And what we decided to do eight or nine months ago was, she was feeling very calm, we had just gone through a process of decision making under what conditions she would buy a place and under what conditions she would defer the decision. So she wrote it up in my office. When I am next, the next time I'm anxious and I come in because I've gotten panicked about what I read in the newspaper, I will do the following three things. What I will not do is buy in a reactive way in the real estate market. And so she put down a bunch of rules for herself while she was calm. Two months ago there was all this stuff, the market's taken off again, it's the greatest number of houses that are sold. And she came in and she was panicked and it was great cause in her file in her own handwriting was her personal policy statement. And she starts laughing and she said, I knew what I was going to do. She's like, I knew what was going to freak out. And I said, yeah, because you're very wise. What did you tell yourself to do? I told myself to chill out and to defer the decision for three months and she just threw her head back and laughed and said, I was really sane then when I wrote that. And I said, yeah, you were sane. So the sane part of you, what an empowering thing to have yourself give yourself advice and have yourself calm, put into a plan how you're going to behave for yourself.

So part of keeping on track in a personal policy statement is anticipating your own tendencies. Anticipating your own... Like for me, my tendencies to compare against other people. So anything that I devise on my personal policy statement around success cannot have other people in it. It's not healthy for me. I have to have metrics that are meaningful to me. And I have to have in my moral code or my behavior code things and practices that work for me without looking at, Oh, but I don't, I'm not as funny as Ellen, you know? Well, no, I'm not. So, but I'm funnier than most people I know. So like it doesn't matter. It doesn't matter. It's like do it. Do I find me delightful?

Yeah, most of the time.

Kamal Basra: So that's the personal side. So the other side of it is when you do investing and you're working with an advisor, so how do you measure success or how do you evaluate, you know, am I getting closer to what I'm trying to achieve? So the metrics there are a little bit more...

Tracy Theemes: And this is the investment policy statement.

Kamal Basra: Not subjective. What's the opposite of subjective?

Tracy Theemes: Objective.

Kamal Basra: More concrete, concrete and objective. And so it's slightly different from that personal policy statement. When you start investing with an advisor, this is where that clarity of here's the three things I want to accomplish. And having that conversation with your advisors so your advisors really clear too of these are the three goals that we have in place.

During those discussions, there should be a discussion about, okay, so here's the strategy. How is the strategy going to work and how are we going to measure it? And it might be reporting, it might be that you agree with the advisor that you're going to meet on a quarterly basis. And so you say, and you have every right to ask for this, you say, you know, what, this is kind of new for me and I haven't invested before. It would really help me if we met every quarter just to touch base and it can be a brief meeting, but just for you to remind me what the strategies are that we're deploying and where we are with what's happening out there. What's happening with the interest rates? What's happening with the economy? What's happening with stock markets? Because all of that information we're living with, we're surrounded with. And so to have that touch base meeting once a quarter, that's totally appropriate.

Other clients will say, well, you know, every six months is good because that's when I do look at my books. That's when I look at my net worth. You know, about every six months is a good deal and other people might say once a year, but it's an agreement and it's a conversation to have with your advisor. And again, this is one of those things that people I find they miss that step and they kind of rely on waiting until the emotions kick in where you hear a piece of news or a co-worker tells you a piece of advice and then it gets your emotions going. And then you lose track.

Tracy Theemes: Right. So there's the personal policy statement and I think you're talking a bit about the investment policy statement. And an investment policy statement is actually a formal written document that you and your advisor have about what expected annualized rates of return are, what fee structure you've agreed to, what the general objective of that portfolio is. This is a 20 year plus portfolio aimed at providing security between the time I'm 85 to a hundred. Volatility levels are expected to be plus or minus 14%. It's clearly laid out. We will change this if there is seven straight months of negative returns or two years of annualized rates of returns that are less than 35% of what we...

Investment policy statements are used for major pension funds. They're used in foundations, and not-for-profits, endowments, but they're also very important tools to have as an individual investor and there's a certain point where you get to half-a-million or so of investable assets where having an investment policy statement is almost as critical as having the investment strategy. Because what we need to know in advance is how the advisor and the client are going to behave under certain conditions.

And I think you were just telling the story a while back. It happens with couples. And if you have an age difference, for instance, there's already life expectancy differences between men and women of seven or eight years. And then let's say you're a woman and you marry somebody older, so maybe they're six years older. So now we're up to 13 or 14 years difference. We can have vastly different investment policy statements for the retirement portfolio for each individual. And you were talking about some of the problems when people are misunderstanding the investment policy of a spouse, which is, why aren't you getting higher rates of return?

Well because we have to be more protective here of capital because if the first spouse dies, there's no income coming in from pension. So this has to be a more conservative portfolio.

Kamal Basra: And the other piece that's missed with couples is that traditionally it's been with, again, just speaking in averages, women's lifespans are about four to six years longer depending on which stats you look at. Traditionally it's worked that when the man in the family passes away or is hit with a debilitating illness, their caregiver is the spouse.

Tray Theemes: Right.

Kamal Basra: And so there aren't that many extra costs because that caregiver is living with them as built-in. What happens with the second spouse and whether it ends up being male or female as the second surviving spouse, for them, their goals and objectives are going to be different because they don't have that built-in long-term care. And so their objectives have to be looked at differently at that point.

Tracy Theemes: And I think having that investment strategy and in your keeping on track, knowing that you have a policy statement reflecting those realities, I think it really helps also with equalizing and creating a balance of power in those conversations.

Kamal Basra: But those conversations can be hard. And I know people have come to me and said he won't talk about it or she won't talk about it.

Tracy Theemes: Like everybody.

Kamal Basra: Yeah, exactly.

Tracy Theemes: Yes.

Kamal Basra: So do you have any tips on that?

Tracy Theemes: Well it's interesting. So I think to be honest, watching you in action with couples, whether it's same gender or there's a vast age disparity or it's a fourth marriage or partnership, I think having a third person there to be the fair witness, is extremely helpful. Where I think things are even more difficult is in the cash management place.

So how do you keep on track on the daily decisions of financial living? So, I also think having a plan for that is very important and that can be even part of your cash flow strategy. So, investments, you will often have either an investment policy statement or advisor who's written things down and you've got, I'm going to see you every so often. But at home, how much do we allow ourselves to go over for how many months and what happens if one partner is the typical person who's constantly going over budget or over what we've said for cash flow? And what if one person is earning more than the other? That's when keeping on track gets very tricky and those are some of the difficult conversations.

Again, I think being forearmed is forewarned and I think having promises that we make to each other that we are going to review our finances every 30 days. It's going to be the last Saturday of the month. We won't drink until after we're done it. We don't swear. We listen to classical music. I mean how many, I've probably put hundreds of couples on a keeping on track plan, so of how they're going to talk about it, what the language is that they will use, what the three or four numbers are that they're looking at, how they'll address their conflict. So

	it's not even just, Oh, do it. You know how everything is so trite? Everybody just says, Oh just do it. Just like, well how? How do you do it?
Kamal Basra:	And I would add to that is the monthly conversation also have that annual conversation. So once a year we're looking at the net worth, where you get your account statements, a year end account statements from your institutions, is hold those up and that has to be a conversation where you look at those and see, okay, how are we doing? Does this make sense still for us? Has something changed in our life? Do we need to re-evaluate? So it's also the yearly, year to year looking at the progress, measuring it against your goals. Is this living as closer? Is this keeping us on track? Is this in line with what's happening out there? Is this in line, are the returns in line with what the markets are doing? There has to be, there's an objective metric that you can have this conversation about and it'll be with your advisor of how have my accounts done?
Tracy Theemes:	Well as we are talking about before, statements used to be the feedback that you get was based on banking industry standards, which was monthly and it was basically watching cash flow. How many pennies? It was the brokerage firm or the mutual fund company is saying to you, here's where the pennies went in and out. And it was very difficult to keep a longer term view. So I love you talking about the annualized because now reporting in Canada anyways, once a year you do get the bigger picture of annualized rates of return, annualized fees. And so in addition to whatever your plan is for keeping on track on a monthly basis, I love the idea of saying and once a year we're going to do this.
Kamal Basra:	Right. And that's just responsible. That's being an adult and managing our money wisely.
Tracy Theemes:	Yes. So keeping on track is the most process oriented of all the steps. And if we can break it down into the plans and into the rules that you'll have for yourself that have meaning.
Kamal Basra:	And a timeline.
Tracy Theemes:	And timelines, you'll find it a lot easier to achieve your goals.
Tracy Theemes:	Thank you.
Kamal Basra:	Bye bye.

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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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