PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

Fall 2020 - 1st Edition

Tips, Tricks & Reminders

- **Pedro**
  Did you know? We now have the ability to offer our clients $USD Tax-Free Savings Accounts. If you're interested in hearing more about this, please do not hesitate to reach out myself or anyone on the team.
- **Nik**
  Reminder: The Canada Emergency Response Benefit (CERB) payments are fully taxable. If you have any questions regarding your filing, please don't hesitate to contact our team as we can put you in touch with the right tax professional if you don't already have one.

  Beware: As we're in the midst of the giving season, we want to ensure you aren't giving your hard earned money or personal information to the wrong hands. We've seen an uptick in the number of phishing emails and even text messages that are circulating and would like to remind you that if you see anything in your inbox that seems suspicious, please forward it to myself or Pedro and do not click any links or open any of the attachments.

Introducing Katie Power

We'd like to take this opportunity to introduce you to our newest team member, Katie Power. Katie has joined us from our Raymond James Ltd. (USA) team based out of Vancouver. Her experience with our RJLU team will offer added support to our cross border services. In her role, she'll handle the day-to-day operational and administrative functions, with a focus on providing a high level of customer service.

Katie is originally from Ireland (which won't be of any surprise once you have the pleasure of speaking with her), and is currently living in Vancouver.

We're excited to have her on board to grow alongside our team.

Financial Literacy Month

For those of you who are unaware, November marks the 10th anniversary of Financial Literacy Month!

In the spirit of financial literacy, our team is proud to share that Andrea and Vikki will be volunteering their time this December to mark the upcoming November CFP examinations.

During Financial Literacy Month, the Financial Consumer Agency of Canada (FCAC) engages with Canadians and works together with organizations from the private, public, and non-profit sectors to help strengthen the financial literacy of individuals and families.

Throughout November, organizations nationwide are encouraged to host events and share resources aimed at helping Canadians understand their finances and empowering them to:

- manage their money and debt wisely
- save for the future
- understand their financial rights and responsibilities

As we celebrate Financial Literacy Month, we thought we'd share a recent article that Andrea put together for FAFA (Financial Advice for All), an affiliation of Advocis, on how to get started with putting together your financial puzzle!

We’ve also outlined some of the key areas we focus on when assessing clients financial IQ and how we can assist in improving your overall financial literacy.

For additional tools, resources and other important information on Financial Literacy Month, please visit the CRA’s financial literacy website: https://www.canada.ca/en/financial-consumer-agency/programs/financial-literacy.html

The Personal Finance Puzzle

By Andrea Thompson, CFP, CRPC, CLU, CHS, CDFA

We all went to school and learned the basics: reading, writing, and arithmetic. And yet, what about the life skills we also need when it comes to basic financial literacy? This includes knowing everything from how to manage credit card balances to saving for your first home to applying for a mortgage. I call these “adulting” skills.

These skills start out small, like knowing how to contribute regularly to a bank account when you’re beginning to save. As you grow older and life becomes more complex, however, your needs can quickly grow into a jigsaw puzzle with too many pieces – and no picture on the front of the box! How do you begin to piece together all the financial literacy skills you need? How do you know where to start? How can people learn these skills to adequately make decisions about money in a comfortable and low stress way?

Traditionally, education on personal finance was thought to be the responsibility of the parents. Whatever knowledge and programming people had from their elders was passed on down to their children, and so on. The lessons of yesteryear become the lessons of now. I’ll often hear clients talk about their views in the eyes of what their parents did with the desire to emulate those actions.

This remains true even though we now have the world of knowledge at our fingertips through the internet, though this can create problems of its own. The thousands of websites, forums, articles, and videos available to help teach us about the things we don't know can feel like a bit of a rabbit hole when trying to understand who or what we should turn to. What information sources are reliable, accurate and trustworthy? Which ones are click bait?

Perhaps most importantly, there are professionals who can assist in guiding your financial journey and educate you on the pros and cons of the decisions you will need to make along the way. However, certain industry experts and companies tell us that advice should be 'low fee' or free. Many people are reluctant to pay a financial professional as they don't understand the value of professional advice. Also, with so many different types of advisors – from insurance agents to mutual fund dealers to bank branch advisers – it has become more and more difficult to know who you can trust.

It's no wonder that people are feeling lost. So where do you start?

Let's try to work on your financial puzzle. Here is a project (call it homework!) that I'd like you to try:

1. **Gather all your puzzle pieces.** Assimilate a personal inventory of everything you own and owe, from credit cards to mortgages, to bank accounts, insurance policies and investments. Put everything on the table. Dig out every statement, even if it's from 2012.

2. **Figure out what the picture on the puzzle box looks like.** What are you trying to accomplish financially? Write down all the things that you'd like to achieve and put some time frames around them. Be as specific as possible.

3. **What is the highest priority item that you wrote down in the last question?** Try and create an order from most important to least. Is it paying down the credit card within a reasonable time frame? Buying a new house within 3 years? Refer to your puzzle pieces if needed.

4. **What does your relationship with money look like, and how has that been shaped?** To date, what has been the biggest hindrance to accomplishing your goals? How much time and effort have you put towards solving them?

5. **Have a financial meeting (whether it's alone, with your spouse, or other loved ones).** Communicate clearly and directly about the exercise that you've just gone through. Listen. Talk openly. Write things down. Do this every month.

6. **Educate yourself.** Take the time to make your finances (and yourself) a priority. What is it that you want to learn about? Which resources are trustworthy? Spend some time reading – there are many great books on financial basics. Two I would recommend are The Wealthy Barber by David Chilton to Recalculating by Darren Coleman.

7. **Seek expertise.** A Certified Financial Planning Professional (CFP), Chartered Life Underwriter (CLU) or Registered Financial Planner (RFP) can help you navigate the waters if you're feeling overwhelmed.

If I can leave you with one thought, let it be this: Leave all blame for past financial decisions behind you. Develop a better relationship with money through understanding, interest, and attention. Start fresh and turn over a new leaf – it's never too late!

What is your Financial IQ?

We work with many different clients from various walks of life. One of our main roles is to assess where you are at with your financial literacy: your understanding and comfort with money matters, and to support your ongoing relationship with money through education and guidance.

Here are three key things that we look for when working with a client that let us know how good you are with money:

1. **Protecting your assets is as important as growing them**

   We often find that clients focus so much on the growth aspect of wealth that protecting those very assets from outside risks is ignored. Examples of outside risks (that would deplete the value of your portfolio) are job loss, injury or accidents, disability or illnesses, death, unforeseen taxes, emergency home expenses, etc.

   Someone who understands the value of protecting these risks would ideally:

   - Maintain liquidity (an emergency fund) – 3-6 months of lifestyle needs in cash or available via a secure line of credit
   - Maintain and assess appropriate insurance coverage – we have no problem insuring our home and car, but ignore or dismiss addressing disability, life and health care risks

2. **The value of your dollar is always changing**

   Does your portfolio and spending take into account increases in prices (inflation)? Recently published was that the cost of an average grocery bill has gone up 5.1% through the pandemic.

   - Are you taking note or tracking how your costs are increasing each year?
   - Are your savings levels also increasing with inflation?
   - Is your portfolio and retirement plan properly protected against inflation? (This is mostly our job; however, it's important for clients to understand the magnitude and value of this risk.)

3. **You are open to input, learning, understanding, and changing your viewpoints**

   Financial literacy is not taught in schools. We don't expect our clients to have a Ph.D in finance; however, a willingness (at some level) to engage in understanding your financial picture tells us that you can have a positive relationship with money moving forward.

   - Are you asking the questions of your advisor that you might be afraid to ask for fear of sounding uneducated? (Don't worry, this is quite common!)
   - Are you open to other ideas and viewpoints from the financial professionals that you engage with? Someone who is willing to open their mind to alternate ideas and consider them as part of their decision making process is key.

Client's Corner

What Are These Yields Telling Us?

ONE WISHES TO TREAD VERY LIGHTLY HERE.

That's because one is looking at something he has never seen before, and trying to figure out what (if anything) it should mean to the long-term, goal-focused, planning-driven investor. Please take what follows in just that spirit of inquiry.

The relevant facts are as follows:

• As I write on this 33rd anniversary of Black Monday 1987—October 19th—the current yield on the 30-year U.S. Treasury bond is 1.564%, according to Bloomberg. Can we just call it 1.6%?

• It may seem counterintuitive in this plague year, but data from Bloomberg indicate that the total dividend payments from the constituents in the S&P 500 Index will come to an estimated $59.41 per share in 2020, up from $58.69 (the previous record) in 2019. Can we just call it $60?

• The S&P 500 opened this morning a tad below 3,500. Assuming the $60 dividend number above, then, the Index is currently yielding 1.7%.

In sum, an index of 500 of America's largest, best-financed, most profitable, most innovative businesses currently yields more than does the 30-year sovereign debt of the United States.

I've never seen that before. I can further report that it has never happened in my career as a financial professional, which began in 1967. In that time, the 30-year Treasury has always had a higher current yield than stocks—sometimes a lot higher. That's just logical. It's because stocks offer precisely what bonds do not: significant potential for growth, both of capital and (via dividend increases) income over 30 years.

If a new 30-year Treasury were being offered today, and I bought it, my prospects over the next 30 years would be as follows. Believing as I do that said bond is the highest-quality long-term debt instrument ever crafted by the hand of man, I would be virtually certain of getting my (taxable) 1.6% annual interest, and at maturity I'd get back my principal—that is, the $1,000 per bond I'd invested 30 years earlier.

But in the next breath, I note two cautions. (1) The central bank of the United States—the Federal Reserve—has a clearly stated policy goal of engineering two percent inflation. Should they achieve this going forward, the purchasing power of my cash income would actually be declining at a rate greater than my percentage yield. After tax, my real return would be solidly negative. (2) At the long-term (1926–2019) inflation rate of 2.9%, as reported by Morningstar/Ibbotson, the purchasing power of the $1,000 per bond I'd be repaid in 30 years would have fallen to about $400. Another way to say this is that my capital would have lost 60% of its purchasing power.

If instead I chose to invest in a security that tracks the S&P 500, I'd be guaranteed absolutely nothing by absolutely nobody. Instead, I'd be thrown back on history, and on my own tolerance for ambiguity. There are simply no facts about the future.

In trying to decide whether to own the equities or the bonds for the next 30 years, I suppose I might begin by consulting the equity experience of the ***last*** 30 years or so—let's say 1990 to now. According to NYU Stern School's *"S&P 500 Earnings History,"* the Index ended 1990 at 330.22; that year it had paid dividends of $12.09. As we've observed, the current price of the Index is around 3,500, up more than 10 times; the dividend, as we saw, is running at a rate of about $60, up virtually five times. Both increases compare very favorably to the Consumer Price Index, which—per InflationData.com—is up just less than twice.

Of course, the next 30 years won't precisely mirror the last 30; they never do. (At least I hope they won't, when I remember that the 1990–2019 period takes in the two deepest bear markets in equities since the 1929–32 experience. Thus, even as the Index was appreciating 10 times, it managed temporarily to fall 49% in 2000-02, and a whopping 57% in 2007–09. Yikes.)

I think you see where this is going. (Heck, it's already there.) How does someone investing for the great goals of life—a secure retirement over perhaps three decades, meaningful legacies to loved ones—buy bonds at today's interest rates, in preference to a broadly diversified portfolio of high-quality equities with a startlingly competitive current yield? Of what is one so afraid that he would invest for what will quite possibly be—after inflation and taxes—a negative real long-term return? I confess I just don't see it.

This is no more than one man's opinion. Or, more accurately, one man's take on what appears to be a significant financial anomaly. I'm surely no less a prisoner of my experiences and biases than is anyone else. But as you work to make intelligent, long-term, goal-focused investment strategy in 2021 and beyond, this may be something you and your financial advisor will wish to consider.

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