Dreams cost nothing…
Implementation gets expensive.

Managing Your Wealth To Fulfill Your Dreams

By failing to prepare you are preparing to fail.

Benjamin Franklin

Robert Livingston
January 2025

www.dreamscostnothing.com

Introduction

"A goal without a plan will remain but a dream."

Managing your wealth requires knowledge, planning, discipline, and patience. If you want to skip these four steps, I recommend you buy some lottery tickets. At least with lottery tickets you will find out quickly if your plan is working.

Managing Your Wealth to Fulfill Your Dreams is the second in a second of series[1] on the topic of wealth management. My motivation came from a personal friend who fifteen years ago received a large inheritance. Today it is all gone!

I asked myself the following questions:

- What mistakes were made?
- Why did these mistakes happen?
- What can we learn from my friend's experience?

The last question is the most important. We can't rewrite history, but we can learn from it.

What mistakes were made?

My friend never understood the very basics of wealth management. Recall the saying in the Bible: "*My people are destroyed for lack of knowledge*."[2] The same principle applies in his case. To prudently manage your wealth and have it create opportunities, you must start with the basics of wealth management: establish your *"achievable"* dreams, define your goals, and create *"realistic"* plans to achieve them.

Why did mistakes happen?

Most people outside the financial industry find the topic of wealth management either very intimidating or extremely boring, or both. Unfortunately, our industry for the most part has made the explanation of wealth management either very intimidating or extremely boring, or both. Needless to say, this has caused a major problem. We as an industry have not only failed to meet the needs of the investing public; we have helped compound the problem.

[1] The other two essays are *Acquiring Your Wealth to Fulfill Your Dreams* and *Giving Away Your Wealth to Fulfill your Dreams*.

[2] Hosea 4:6 (New International Version)

What can we learn from my friend's experience?

Any discussion of wealth management must be presented in simple, easy to understand terms.

After reading *Managing Your Wealth to Fulfill Your Dreams*, a client sent me the following note:

> *Thank you for the chance to read the document, Managing Your Wealth to Fulfill Your Dreams. I consider myself "investment-challenged" and I tend to hand over any financial document that looks like it will lead to personal frustration and confusion to my husband to read and interpret in words of one syllable. I admit my reaction is totally irrational, but it is mine and I'm stuck with it.*
>
> *I am pleased to tell you I found the essay very clear, interesting, and concise. It is full of commonsense topics that were laid out in layman's terms. Too often good advice is so couched in jargon that the message is lost and therefore useless to those of us who are neophytes in the area of the author's expertise.*
>
> *Thank you, again, for sending the booklet. It was refreshing to read a financial document that was both informative and practical.*

My client's comments made my day! They confirmed I was on the right track. Of course, some readers are not *"investment-challenged"* and might find my essay far too basic. For those readers, I recommend you share the essay with someone who might need and enjoy its simplicity.

Wealth management is both an art and a science. My observations and recommendations are my personal views based upon my industry experiences.

Whether you agree or disagree with my ideas, I hope they will generate discussion and help you better manage your wealth to fulfill your dreams.

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Chapter 1: Common Mistakes

There are three ways to learn from mistakes. First there is the easy way: learning from others' mistakes; then there's the hard way: learning from our own mistakes; and then there's the tragic way: not learning from either.

Anonymous

1.1 A Lack of Vision

Most people don't take the time to develop their vision, which encompasses establishing their dreams, defining their goals, and creating their plans. They lack confidence, feeling the bar is set too high to learn the basics of wealth management. Instead, they jump right into spending their acquired wealth.

How you manage your wealth involves many choices. When you make a choice, it requires a decision. You can either make the right or the wrong decision, recognizing no decision is usually the worst decision. When you make the right decision, it must be accompanied by a commitment. The decision requires knowledge and wisdom. The commitment requires a plan, discipline, hard work, passion, patience and must never forget love.

The only thing worse than no plan, is a plan without the commitment. A lack of commitment causes us to live a life of false security and denial. Ultimately, all this accomplishes is frustration and waste. A favourite saying of mine is: *"A goal without a plan will remain but a dream."*

It is no more complicated than that.

1.2 A Lack of Discipline

Our natural tendency in life is to want things now rather than waiting to acquire them at a later date. To do this, we either have to win a lottery or take on debt. I am not against using debt to acquire assets, but debt should be used judiciously to acquire long-term assets. Debt should not be used to finance current needs such as travel, clothes, and entertainment. A high percentage of Canadians back themselves into the position of acquiring permanent credit card debt. At the interest rates the credit card companies charge for overdue payments, we should be careful to avoid this trap.

When you finance the purchase of your house with a mortgage, take the time to understand your obligations. Do not borrow to your limit – allow yourself some wiggle room. Don't ask: *"How much will the bank lend us?"* Rather, ask: *"How much can we afford to borrow?"*

Of course, we sometimes acquire too much debt because we don't watch our expenses. Managing your expenses is your responsibility and no one else's. You can't blame others when your expenses get out of control.

Discipline is one of the most important skills you must learn and practice in life. It plays a critical part in managing your wealth. A lack of discipline leads to so many problems.

Jim Rohn, a well-known personal development speaker, defines the importance of discipline*: "Discipline is the bridge between goals and accomplishments.*

"A lack of discipline means you end up living in the largest river in the word – De Nile."

And never forget a quote by P.T. Barnum: *"Money is a wonderful servant but a terrible master."*

1.3 A Lack of Trusted Advice

It is important to understand what you know and, more importantly, what you don't know. Many who are not familiar with the investment industry don't take the time to find someone who is trustworthy, knowledgeable, and unbiased. I find it amazing how few people ask knowledgeable family members for advice.

Of course, I am sensitive to the fact that many people do not want to share their finances with others, especially family members. There can be a cost in taking this route so review your options carefully. Avoid, if possible, building a wall of secrecy around your money.

Chapter Two: Take Control

When you know a thing, to hold you know it; and when you do not know a thing, to allow that you do not know it – that is knowledge.

Confucius

2.1 Make the Decision

An extremely important point to remember in managing your wealth is that it is your money. At the end of the day, only you are responsible for how it is managed, whether you are managing it or someone else is. Taking control of your finances requires a decision, followed by a plan, implemented with discipline, and nurtured by patience. It is that simple.

The choice you make is yours and yours alone.

2.2 Organize Your Finances

I recommend the following steps to organize your finances:

- Prepare a budget
- Itemize all assets and liabilities
- Prepare a *"Drop Dead Package"*

A. Prepare a Budget

Tongue in cheek, I say preparing a budget is like going to the gym to stay in shape — not much fun but it can help avoid big trouble down the road. Most people do not prepare a budget, and of the limited number that do, most do not have the discipline to follow it. At least they don't until the money runs out!

Many working people use their T4 as their budget. As long as money in is close to money out, life muddles along. I would argue that procrastination is the main reason working people don't have a budget. Reality quickly sets in when there isn't a T4. Even then people don't want to face reality. In either case, get over it. Take the time to not only sit down and prepare a budget, but discuss it with your spouse and, if necessary, your family.

Let me share a good story with you.

Several years ago, I put together a budget and realized that some of our expenses should be modestly reduced.

I informed our three sons at university that their budgets would be modestly cut next term. At the same time, I reduced the monthly deposit to our joint checking account. My wife uses this account to manage some of the household expenses. Unfortunately, I did not discuss this with her, and she confronted me with my mistake. I had the right plan, but it was poorly executed.

The lesson learned?

There is no point constructing a budget in isolation. A budget must be discussed, planned, and most importantly, involve all the affected parties.

B. Itemize All Assets and Liabilities

I started this process 25 years ago. At the end of every year, I do a thorough review of my wife's and my assets and liabilities. I start by listing the assets and liabilities as either liquid or illiquid. Within the liquid assets I break them down into cash, bonds, and equities as well as the cash surrender values of our whole life insurance policies. Within the illiquid assets I include our RRIFs, long-term investments and real estate. I do the same for our liabilities, short-term and long-term (i.e., bank lines of credit and mortgages).

This provides a true picture of our net worth and liquidity.

Lastly, I record each year in a summary file with a line on the spread sheet which lists the after-tax value of all our investments, not including real estate. I recommend you do this at least every two years.

I assume these assets will earn a 4% rate of return, which is a conservative assumption as to the cash flow your investments can provide without compromising the capital involved. To withdraw in excess of 4% may not be a problem in the near term but it can cause problems in the long term.

C. Prepare a "Drop Dead Package"

Too often I have seen confusion occur, both personally and professionally, when someone passes away. In such cases there has been inadequate, and, in most cases, no documentation prepared to deal with the ongoing management of the finances following a sudden death. I am not talking about a will but rather the day-to-day financial management. I know my recommendation probably sounds rather macabre, but this is not my intention.

Starting five years ago, I put together my *"drop dead package"* of information for my wife. In the event of my sudden death, all the financial information my wife would need is included in the package. I have included a personal finance package at the end of this essay which I encourage you to take the time to complete and share with your spouse.

Let me share a good story with you.

In the spring of 2007, my father was diagnosed with terminal cancer. In the last two months of his life, he was putting together his *"drop dead package."* My father was an extremely well-organized person and spent his entire career in the investment industry, and yet only near the end did he realize he had better put together this necessary document.

Of course, I am sharing this story to point out how a knowledgeable, organized and most importantly, caring person almost failed to put together this important document.

2.3 Select a Trusted Advisor

Once you have made the decision and organized your finances, the last step is to understand what you know and, more importantly, what you don't know regarding wealth management. Once you have realized what you don't know, you have three options:

- Ignore the issue
- Educate yourself about the issue
- Seek outside counsel regarding the issue

Clearly, the first option solves nothing and can cause big problems down the road. If you don't want to spend the time required to learn about wealth management, I recommend selecting a trusted advisor. This person will possess an interesting blend of qualifications:

- Understands wealth management, but preferably **does not** manage your wealth at present
- Can function as a trusted and unbiased confidante
- Has interesting life experiences to share with you
- Ideally, is a family member or good friend

Another possible option for your advisor would be a fee-for-service financial planner.

A planner, through discussion with you, would prepare a financial plan including how your money should be managed. The planner would provide investment options and recommend an appropriate course of action. It is important to note that a fee for service planner receives no compensation from the investment providers ultimately selected.

Let me share a good story with you.

Late in the summer of 2000, I dropped by my parents' cottage for a visit. Mom was out, so dad made some coffee, and we sat down to talk. Out of the blue, my father asked me to take a look at the family investment portfolio. I knew my father was hesitant to talk about this with his children. He wanted his children to make it on their own; any inheritance would be years down the road, and he did not want them to focus on it now. Dad managed his own investments and had done an excellent job. It was a blue-chip portfolio consisting of bank, pipeline, and utility stocks, and, oh yes, Nortel.

Now many investors owned Bell Canada because it paid a good dividend and was viewed as a *"widows and orphan"* stock. Nortel, on the other hand, paid no dividend and was viewed as one of the top five growth stocks in the world. The price of the stock exploded between 1998 and 2000, rising from $15 to almost $125. With this type of return came risk, which most investors were unaware of.

After looking at the portfolio, my father asked me what I thought. I immediately told him the Nortel holding was far too high, as it represented in excess of twenty percent of the total portfolio. We agreed to sell half the position as soon as possible. While Nortel represented over thirty percent of the Canadian stock market at the time, many investment managers had decided to adopt a *"cap ten benchmark".* Simply put, the maximum holding of any one stock could be no more than ten percent of the Canadian equity holdings. My analysis and recommendation were based upon this simple principle.

There was good news and bad news. The good news was my dad sold fifty percent of the holding for about $100 per share. The bad news was he kept the other half.

By sharing his financial affairs with me, Dad avoided a major disaster. In Dad's case there was a trade off in his course of action, revealing the value of the portfolio with his son versus not getting sound advice from a trusted advisor.

Chapter 3: Investment Management

The choices we make are ultimately our responsibility.

Eleanor Roosevelt

3.1 Do it Yourself

The Benefits

There are two main benefits when you manage your own investments:

- Lower costs
- Personal enjoyment

There is no question the most cost-effective method to manage your investments is to do it yourself. Beware though, there are fees to buy and sell stocks, bonds and, in some cases, mutual funds. While index funds are cheaper than actively managed funds, they aren't free.

Some people get great personal enjoyment and gratification from managing their own investments. They are passionate about it and sometimes spend many hours a week managing their portfolio. One note of caution: there comes a time when you must *"hang up the skates"* and retain a professional to take over the management of your assets.

The Risks

Here are some of the common mistakes when you do it yourself:

- Failing to spend enough time monitoring the portfolio
- Lacking risk controls
- Investing in the *"flavour of the day"*
- *"Getting married"* to your holdings
- Failing to measure your performance

The average Canadian spends less than an hour each year reviewing his or her investments. Managing your investments is not a full-time job but it definitely requires more than a cursory glance whenever the urge hits you. Selecting your asset mix and investing in stocks, bonds, or preferred shares, all require basic research. Firing the dart against the wall may work some of the time, but over the long-term is fraught with huge risk.

Another common mistake the do-it-yourselfers make is the lack of any (or inadequate) risk controls in managing their assets. When I first began to manage clients' portfolios almost 30 years ago, I was a big proponent of a balanced approach which involved investing in *"boring"* bonds. A colleague of mine always used to say: *"Boring is beautiful."* In 2008, bonds were not only beautiful they were great! By the next year, changes in the market demanded changes in the portfolio.

The *"cocktail circuit"* can lead to the mistake of investing in the current flavour of the day. Many stories from the 2020 tech bubble, and the ensuing equity bubble, can be told. Rolling the dice on an up-and-coming *"concept"* stock provides few winners (but you will hear about them) and many losers (most of which you will not hear about).

Investors can become married to their stocks; they almost become members of the family. *"How could I sell ABC – it's been in my family for years"* is something I often hear. Ask anybody who owned Nortel. Many investors did not appreciate the risk in owning Nortel and billions of dollars of potential gains were lost.

Lastly, the do-it-yourselfers for the most part do not measure how their portfolio has performed in the context of the risk taken. This must be done.

Let me share a good story with you.

A friend of mine opened a Registered Educational Savings Plan (RESP) for his three children. He managed it himself and over time it grew to over $75,000. Initially, he bought bonds but as he became more comfortable with the markets, he became more aggressive, ultimately investing the majority of the portfolio in technology stocks. When the market crashed in early 2000, the portfolio declined by almost 60%.

My friend made a fundamental mistake in investment management. It is so important to try to match the asset with the liability. In this case the asset was the money in the plan; the liability was the children's education. My friend took far too much risk given the nature of the liability.

3.2 Full-Service Broker

The Benefits

Retaining a full-service broker enables the client to become involved in the investment process. If this is one of your objectives, then a full-service broker may be the best solution.

Many full-service brokers have offices in communities where investment counselors are not located. If frequent personal contact is important to you, choose a full-service broker.

The Risks

Full-service brokers are either compensated for by your transactions or by the management fee charged on the assets under management. In some cases, it is a combination of the two.

Traditionally, brokers have not disclosed their fees in a client friendly manner. You can work through your broker statements to find out most of the fees but there are sometimes fees charged that are not disclosed. For instance, bonds are usually bought and sold in such a way that the transaction fee is not easily discernible.

This can be easily sorted out. Simply ask your broker to prepare a letter outlining the *"total"* annual fees incurred. Remember it is your money.

3.3 Investment Counselor

The Benefits

Most investment counselors have two distinct groups of investment professionals. One group is primarily responsible for the research function. Another group is primarily responsible for client service function.

The research group is responsible for constructing the fixed income and equity models. These models determine which bonds (or stocks) are bought and sold.

The client service group is responsible for interfacing between the research group and the firm's clients. They help the clients determine their investment policy statement (I call it *"the contract of risk"*) and meet with their clients regularly to keep them up to date on their investments.

Our industry sometimes makes things too complicated for what I consider a simple business. Our goal should be to provide performance, fees and service in a package wrapped in trust. Performance and trust are critical for clients over the long term. If either is compromised, the relationship is in deep trouble. For the most part, the research group is responsible for maintaining performance and the client service group is responsible for maintaining trust.

Investment counselors charge a fee based on the assets managed. There is usually a substantial saving once the assets go above a threshold (usually two million dollars).

There is a great advantage with most investment counselors when it comes to fees. Most will pool family accounts for fee purposes. This means a savings in fees which in some cases can be quite substantial. You don't usually get this saving when you manage your wealth yourself or when you use a full-service broker.

The Risks

One of the major risks is the stability of the firm you choose. Take the time to understand the firm's structure, management, and investment process. A poorly run investment firm has a greater chance of delivering poor long-term investment results than one run well.

Ask the individual you will be dealing with how he or she is compensated, and where his or her money is invested. These may seem like intrusive questions; get over your hesitation and ask them. Never forget, it is your money.

Another risk with this option is many investment counselors use either mutual/pool funds or models to manage their clients' portfolios. They try to avoid *"one off"* mandates. One off mandate usually involves clients who want to be actively involved in the investment process. If this is the case, it is usually better to either do it yourself or retain a full-service broker.

Chapter 4: Risk Management

The first step in the risk management process is to acknowledge the reality of risk.

Charles Tremper

4.1 Why Take Risk?

Risk is taken for the following reasons:

- To meet income needs
- To provide capital growth
- To protect assets from inflation

An important point to note is not to take risks for the sake of taking risks. Risk is meant to be a means to an end, not an end in itself.

Let me share a good story with you.

Several years ago, I was approached by one of my clients who thought she should be taking more risks with his investments. He was invested in a balanced fund but thought it would be a good idea to *"put a little more gas in the tank."* He felt that markets were roaring, and he was missing the party.

I explained to him that one takes more risk to either provide more income or generate more capital growth. In his case he could easily double his monthly payment and still be well below a 4% withdrawal rate. Increasing the capital growth would be for his children's benefit. "*My children are well looked after – they can provide for themselves*" was her response. She stayed with the current mix and weathered the bear market that followed.

The lesson learned?

Risk management must not be taken lightly. It must be discussed in detail with your investment advisor. Your timeframe plays an extremely important part in determining the amount of risk you should take. It is best to advance "*slowly"* towards risk rather than "*hastily"* retreat from it.

4.2 Understanding Risk

A. Investment Process

It is not necessary to have a complete knowledge of how your money is being managed but you must have some basic understanding of the process. The Bernie Madoff Ponzi scandal illustrates the risk clients suffered from having no understanding of the investment process used. For instance, predictable, stable returns are not consistent with investments in the capital markets. Taking risks involves volatility. Madoff investors were led to believe that a new investment model had been discovered – predictable returns without taking risk. Wrong!

Most investment managers use an independent custodian who acts as a gatekeeper to protect access to clients' accounts. In the case of Bernie Madoff, he functioned as both the investment manager and the custodian. Thus, his clients had no gatekeeper.

It is also important to understand the investment process in the good and the bad times, especially in the bad times. When things are going well and the market is going up, complacency will set in (which can lead to greed). When things start going badly, complacency turns to fear and ultimately can lead to a rash change of strategy. Such capitulation is where the biggest mistakes can occur.

A number of years ago, a study was conducted in the United States examining mutual fund returns over a 10-year period. For the 10-year period, the average mutual fund returned 10% per year, while the average investor's return was about 8%. Why the lower investor returns? Many investors tend to follow the trend, switching their investments at exactly the wrong time, thereby undermining long-term performance.

B. Performance Measurement

Lastly, it is important to understand that the performance of your portfolio is more than just looking at the annual returns. It also involves looking at the returns in the context of the risk taken.

This is where the industry has developed the use of benchmarks to better measure performance. A benchmark is a blend of the index returns for the individual asset classes the client is invested in. For instance, if a client desired his portfolio to be 50% fixed income and 50% Canadian equities, a benchmark would be constructed from the FTSE Canada Universe Bond Index (50%) and the S&P/TSX Composite Index (50%). The portfolio's performance is measured against this benchmark. This methodology provides accountability and transparency – extremely important in today's investment world. This methodology helps the client better understand the performance of his portfolio given the risk taken.

4.3 Investment Policy Statement

The Investment Policy Statement (IPS), or as I call it: *"the contract of risk,"* is the most important part of the investment process. Any discussion regarding the IPS must include the following:

- Why is the IPS so important?
- What should the IPS consider?
- What must the IPS include?

Why is the IPS so important?

The IPS is important for the following reasons:

- The IPS compels the client to put his investment strategy in writing and commit to a disciplined investment plan.
- The IPS ensures that both the client and the investment advisor have a clear understanding of the client's risk profile and the advisor's service commitment.
- The IPS is a legal document which can be reviewed by outside parties. For instance, if the client becomes incapacitated for whatever reason, a third party can access the IPS to understand how the money is being managed.
- Lastly, the IPS provides clarity and accountability.

What should the IPS consider?

- The goal(s) for the money to be managed
- The risk tolerance of the client
- The client's ability to tolerate losses
- The client's total portfolio
- The client's source of employment income
- The age of the client
- The beneficiaries

What must the IPS include?

The individual portfolios and assets to be managed
The statement of objectives – current income versus capital growth
The investment constraints

- Liquidity
- Time horizon
- Taxes
- Unique needs
- Asset mix: percentages in bonds, equities, and cash
- Equity mix: percentages in Canadian, U.S. and international equities
- Portfolio and benchmark performance
- Service commitment
- Signatures required
    - The client(s)
    - The portfolio manager(s) of the investment firm

If an investment manager does not provide an Investment Policy Statement, the client faces potential and needless risks.

Chapter 5: Establish Your Vision

Vision without action is a daydream. Action without vision is a nightmare.

Japanese Proverb

5.1 Establish Your Dreams

Dreams require imagination. They are *"what if"* wishes. They usually have no defined deadline.

Here are two dreams I recommend you consider:

A. Financial Independence

You can achieve financial independence when you are managing your finances, rather than your finances managing you. Financial independence doesn't mean you have enough capital, so you don't have to work. Rather, financial independence means you are debt free; it means you have a comfort level with the process in place to manage your finances.

B. A Fulfilling Life

I define significance as follows:

- Help others discover their passion
- Provide the resources needed to help them achieve their destiny
- Encourage them to share their passion and success with others

In my essay, *Leaving a Legacy*, I discuss the difference between success and significance. Success is all about us; significance is all about others. Zig Ziglar, a well-known author and motivational speaker on personal development, put it well: *"You can get everything in life you want if you help enough other people get what they want."*

We achieve a fulfilling life when we recognize the blessings we have been given and put plans in place to share them with others. And we must never forget to enjoy the fruit of our labour.

5.2 Define Your Goals

Goals require inspiration. They are *"what can be"* statements. They almost always have deadlines. Goals are dreams with a deadline.

Here are two goals I recommend to achieve the dreams previously discussed:

A. A Well-Financed Retirement

Retirees are going to be in for a rude shock when they find out the amount of capital required to finance their retirement. The reality is interest rates are at historical lows (cash earns almost zero today) and stock markets are extremely volatile. To prudently finance a very conservative $60,000 lifestyle, a retiree would need about $1,500,000 in financial assets (this assumes they have no pension income and excludes real estate). The math is simple and sobering. $1,500,000 earning a 4% return generates $60,000 before tax. In today's investment world, this is what a balanced fund should earn.

B. The Generational Transfer of Wealth

An ancient Chinese proverb states: *"Wealth never survives three generations."* A century ago, the Americans updated it to read: *"From shirtsleeves to shirtsleeves in three generations."*

Why does this happen?

The generational transfer of wealth plays an important part in family relationships. Families must teach and actively pass on their values, rather than merely focusing on passing on their valuables. Midas can come in two flavours: the Midas curse and the Midas touch.

The Midas curse happens when money is passed on to heirs who are ill-prepared to receive it. In some cases, an unsuccessful generational transfer of wealth can destroy a family, through either acrimonious settling of the will or reckless spending of the inheritance. The result? Often, an incohesive family.

The Midas touch occurs when the money is passed on to heirs who are well prepared to receive it. A successful generational transfer of wealth through transparency and good communication often leads to responsible management of the inheritance. The result? Often a cohesive family.

Roy Williams and Victor Preisser, in their book *Preparing Heirs,* examined the generational transfer of wealth in over 3,000 families. They discovered the major reason almost two-thirds of the families failed to successfully transfer the wealth between generations was because of a lack of trust and poor communication between family members.

The authors also found families who successfully transferred their wealth to the next generation focused on education, communication, and planning.

Becoming a cohesive family requires the following steps:

- Writing a family values statement
- Teaching, establishing, and practicing family values
- Ensuring good communication
- Developing plans for the generational transfer of wealth

5.3 Create Your Plans

Plans require perspiration. They are *"what must be done"* commitments for a goal without a plan will remain but a dream.

While it is important to establish your dreams and define your goals, you must then create plans to carry them out. Each dream must have a goal; each goal must have a plan. Sounds pretty simple? It is! The plans once created must be managed with discipline, nurtured by patience, and maintained with love.

Here are two plans I recommend to accomplish your goals:

A. Prepare a Budget

People want the goodies in life, but many are not prepared to do the work involved. To effectively manage your wealth, you must start by preparing a budget. When I talk to different groups about wealth management, whether young or old, I always stress the importance of a budget. The process will help you begin to understand money in and money out. Most people have a good handle on money in; it is the money out that causes the problems. Benjamin Franklin shared this advice: *"Beware of the little expenses; a small leak will sink a great ship."*

B. Educate Your Children

In another essay *A Tale of Two Cities* I discuss in great detail the importance of teaching our children the basics of wealth management. Education is the first step if we are to achieve a successful generational transfer of wealth.

Let me share with you a good story.

On their fifth or sixth birthday, I took our sons to the local bank and opened an account in their name. On their behalf, I made the first deposit of five dollars and told them that at the beginning of each year, I would give each of them a twenty-five percent bonus on the money they had saved over the previous year. Of course, early on, the cost was minimal, but somewhere along the line, the kids began to figure out the game, and their contributions began to increase. They deposited some of the money from birthdays, babysitting and odd jobs into their bank account. If they took the money out, that was netted against what was saved. By age sixteen, each of them had saved close to $2,000.

The process wasn't without its challenges. When our sons became teenagers, banks were introducing ATM cards. *"Money out"* was quickly depleting *"money in."* I had to "modify" the rules quickly or my lesson would end in failure. The money in the bank account was moved to a mutual fund account and the project continued.

Our children learned some important lessons about how to manage their finances including:

- Establishing a budget
- Learning how to save
- Understanding instant versus delayed gratification

In Closing

Money is a wonderful servant but a terrible master.

P.T. Barnum

Allowing our wealth to become our master is one of the most dangerous mistakes we can make. Our wealth is meant to be a means to an end, not an end in itself. When our wealth becomes our master, it becomes our idol. Then it will cause us to begin compromising our values and self-control. As our plans begin to break down, our dreams begin to disappear. Both personally and professionally, I have seen this process destroy relationships, tragically in many cases. Families will become torn apart and friendships will be lost. Our blessing will turn into our curse. The sad thing is that, once begun, this can be exceedingly difficult to reverse. This slide will never lead to happiness and fulfillment, because lest we forget, you can't take your wealth with you.

The time and effort taken to establish your dreams and goals will all be for naught.

Needless to say, don't go there.

Rather take this route. Establish your dreams, define your goals, and create your plans. Maintain your discipline and enjoy life. While your plans may have to adapt to changing conditions, never forget your dreams.

It is that simple.

Appendix A: Personal Finance Package

Name

Name

Contact Names

Responsibility	Contact	Phone Number	Email
Accountant			
Bank Manager			
Employer			
Executor(s)			
Guardian(s)			
Disability Insurance			
Property Insurance			
Life Insurance			
Investment Advisor			
Lawyer			
Family			
Family			
Family			

Personal Information

Name	Date of Birth	SIN	OHIP	Driver's License

Name	Birth Certificate	Credit Card	Credit Card	Passport

Legal Documents

Document	Yes / No	Contact	Location
Loan			
Mortgage			
Will			
Power of Attorney for Property			
Power of Attorney for Personal Care			
Insurance Declaration			
Trust Agreement			

Banking Information

Document	Company	Contact	Account Number
Bank - Account			
Bank - Account			
Bank - Loan			
Bank - Mortgage			
Bank – Safety Deposit Box			

Insurance Policies

Asset	Company	Contact	Policy Number
Life Insurance			
Life Insurance			
Life Insurance			
Life Insurance			
Disability Insurance			
Property Insurance			

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Investment Accounts

Asset	Company	Contact	Account Number
Registered Account			
Registered Account			
Registered Account			
Registered Account			
Non-Registered Account			
Non-Registered Account			
Non-Registered Account			
Tax Free Savings Account			

Real Estate

Residence	Tax Roll Number	Hydro Account	Energy Account
House			
Second Property			

Note

This material is extremely confidential, and I recommend you store it in a safe place, preferably your safety deposit box.

About the Author

Bob Livingston has spent over 50 years on Bay Street, on both the sell-side and buy-side. In the last 20 years he has made numerous presentations on wealth management and has spoken at several conferences on the part philanthropy can play in managing your wealth. In addition to Bob's financial management experience, he has become interested in personal development. He has made numerous presentations to high school and university students, stressing the importance of wealth management and personal development.

Bob has authored numerous essays on family issues, personal development, philanthropy, and wealth management. Two common themes in his essays are the importance of developing financial responsibility in your life as well as increasing personal involvement in your community. These goals can be realized by learning the basics of wealth management and making personal development an integral part of your operating DNA. Bob uses numerous family anecdotes to illustrate his personal journey in pursuit of these two goals.

When asked why he has such a passion for personal development, Bob's answer is simple: *"It is my way of giving back to the community, it expands my comfort zone, and most importantly, I am having fun doing it."* Bob has come to realize one of his true passions in life is helping others achieve their dreams.

Bob has developed a website, *Dreams Cost Nothing*, where you can access his reflections on family issues, personal development, philanthropy, and wealth management. There is also resource material available regarding specific topics like organizing your financial documents and starting a personal development library.

Bob suggests that you never forget: *"Dreams cost nothing. Implementation gets expensive."*

Contact Information

Robert Livingston
bob@dreamscostnothing.com

www.dreamscostnothing.com

My website and my essays do not represent professional investment or financial advice and are not intended, and should not be relied upon to provide investment, tax, or financial advice.