THE TYLER GROUP
Financial Services

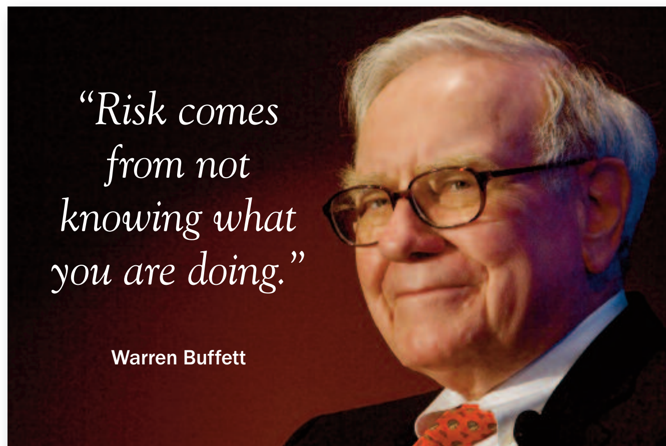
Sound Advice

The Definition of Safety (Part One)

By Rod Tyler, CFP, R. F. P. , CLU

Defining risk and reward should be a simple exercise. As you read these words you almost certainly have your own definition of what constitutes safety, and how you define risk. If you have any doubts, just stop reading and think for a moment. If you are investing your money today, what do you consider to be a safe investment and what would you consider to be a risky one? How do you think other people would answer this question?

For example, let's take a couple of your high school friends. How would the friend, the one who went on to run a very successful business, describe a risky investment?



Or what about the other friend, the one who has struggled all his or her life to maintain a steady job? As you can see everyone's definition of risk can be highly dependent on life experience and their circumstance.

One of the most striking examples of how the public views risk and reward just occurred in the last 6 plus years. From about 2000 through 2008 the public in most of the Western world, as well as all the big banks, were convinced that real estate represented one of the safest forms of investment. Primarily as a result of low interest rates, massive amounts of money flowed into the property markets worldwide. From London to Lisbon, from New York to LA, and around the world, cheap money fuelled a huge property bubble. Only when the financial crisis of 2008 caused a panic, did the perception of real estate as a perfectly safe investment become a question. In Canada, because of our more cautious and highly regulated banking system, and more rigorous mortgage lending system, Canadians did not experience the same downdraft to home and commercial real estate values. Elsewhere that was not the case at all. If you're not convinced of that, just ask some of the folks in Dublin, Ireland, south Florida, Phoenix or perhaps in San Diego.

We as human beings are amazing at many activities, but most of us are not very good judges of what constitutes a real financial risk. Nor are we very good at understanding probability. There are a number of writers who have recently written some very useful books describing what so many of us are challenged to understand - the true boundaries of risk and reward. The message of several of these writers and researchers can be largely captured in the idea of what we all know intuitively. We are all human. We are subject to emotion. We are easily swayed by recent events. We are social beings, easily

influenced by our family and acquaintances, and we are all different. What amounts to risk to one person, represents opportunity to another. Why else would one person try bungee jumping or skydiving, while another person is completely unable to fly as a passenger in a commercial jet plane?

While the recent financial events of 2008 and 2009 seem so fresh in our minds, I am going to refer you to a similar set of financial events, the market collapse of 1929 and the challenging events of the 1930s. It was following this period that an American comedian, Will Rogers, famously quipped about his idea of financial risk. He said **"he was not so concerned about the return on his money, as the return of his money."** That probably is the default idea of most people's idea of risk. **"I just don't want to lose my principal"** is a common response by lots of people when we are discussing risk and reward.

So the obvious question is what should you do and consider when you are deciding on your own idea of risk or reward? Here is my advice. Start with the end in mind. For example, if you are funding a retirement then you will need to decide on **how much money** you will require in today's dollars, and then **when will you need it**. Then work backwards. If you like, and are good at math, this is an easy exercise. If not, your trusted financial advisor will help you. Here's an example.

A 40-year-old couple would like to retire at 60 years of age, and not including their Canada pension plan or other benefits, they decide they need $4000 per month after tax. Let's assume a tax rate of about 20%. That suggests they will need about $5000 before tax, to be left with $4000 after-tax. That is $60,000 per year. How much money does it take to generate $60,000 per year? Well if you assume a 5% rate of return, then you need $1,200,000. At 3% that number balloons to $2 million. If you achieve a 6% rate, the number falls to 1 million. So the question you may be asking is "why would anyone want to accept a 3% rate when they could achieve 6%?"

The answer is that to achieve the superior long-term rate of 6%, you'll need to accept greater short-term fluctuation. Alternately, if you elect to take what may appear as the perceived safety of a 3% return, you will need to **either save more, work longer, or accept a lesser income**. Now before I close, I need to address one more question. That is "why do we need $1 million in retirement savings when we are 80 years old?" The answer will depend on several other considerations, but one that comes to mind is that you might live to 90! Or beyond. Obviously there is more to the calculation than my simple example, but you get the idea.

In the next issue of ***Sound Advice***, **The Definition of Safety (Part Two)**, I will address another concern, the effect of an increasing cost of living. Then, in the final article, I will discuss how to determine how much money you will need as you get older. The answer may be very different than what you were thinking.

As always, we welcome your comments, and are happy to provide you with additional information about this topic or any other financial planning concerns you may have.

Our Newest Team Member

Eugene Irwin

The Tyler Group is pleased to announce that Eugene Irwin has recently joined as a client service specialist. Eugene is a recent graduate of the University of Saskatchewan, having majored in finance in the Faculty of Commerce. He grew up on a mixed farming operation in southern Saskatchewan and completed his schooling in Weyburn before enrolling at the University of Saskatchewan.

Eugene's educational background in commerce and finance prompted him after graduation to apply for positions with several larger employers in both Alberta and Saskatchewan. When asked why he chose to accept the offer from The Tyler Group, Eugene says that he had done some research on how he might ultimately succeed and prosper in the financial advisory field. While visiting various financial websites, one well respected commentator suggested the following: "Try to find a privately owned and independent firm who can provide an initial wage, rather than commissions, and look for the opportunity to obtain mentorship." When he compared the available alternatives, The Tyler Group was a perfect fit.

We tend to agree. Eugene is a great fit for our firm and our client's expectations for receiving prompt and independent advice and counsel.

Eugene's immediate goals are to complete the various financial planning accreditations and licensing requirements, while learning about the financial planning tools used by The Tyler Group. In addition Eugene values a healthy work life balance and plans to participate in the community activities in both his hometown and in Regina. Finally, as a bonus, Eugene is a huge Rider fan. We are confident he'll fit right in!

The Lasting Value of Financial Literacy

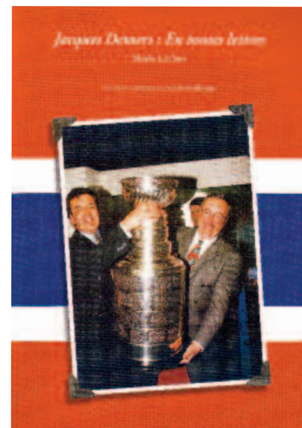
By Rod Tyler, CFP, R. F. P. , CLU

This month I, along with 5 other judges, will read many, many essays written by young Canadians as part of the Bridgehouse Scholarship Program. This wonderful program introduces students between the ages of 16 and 24 to concepts about saving and investment. They answer a quiz that helps them understand their own individual personality, as it pertains to money, and how they would save and invest. Upon completion of this self-awareness quiz, it invites them to write a 500 word essay describing what they learned. I and my fellow judges choose the 10 best essays and the winners receive a $2000 scholarship from Bridgehouse. Of course we hope this will provide all participants a lasting impression of the value of financial literacy.

In a recent press release the federal taskforce that is charged with improving financial literacy in Canada announced 50 separate programs that are intended to help Canadians overcome financial illiteracy. The program is entitled **Count Me In**. If you know anyone for whom managing their finances has been a problem, then you can appreciate how it affects people's lives and that this is a huge challenge to overcome. I invite you to consider 3 different perspectives on the **Lasting Value of Financial Literacy**.

First, have you ever thought what it would be like if you were unable to read, to write or to be able to do simple mathematics, like adding and subtraction? Perhaps you know someone for whom mastering these skills is very intimidating. For someone with dyslexia, this is often the case. It can also be true for someone who, through no fault of their own, has been denied the opportunity to go to school and learn the basics of reading, writing and arithmetic. To put this in context, I would like to share three stories, two public and one personal.

If you are a hockey fan, you may remember a very successful hockey coach, **Jacques Demers**. Demers coached in three professional hockey leagues from 1979 through 1999, and in 1993 was the coach of the Stanley Cup winning Montreal Canadiens. While Demer's coaching longevity and coaching successes may endear him to certain hockey fans, it is for an entirely different reason that he became a national hero and treasure.



*"On November 2, 2005, Jacques Demers released a biography, written by Mario Leclerc, entitled **En toutes lettres** (English translation: **All Spelled Out**), in which he revealed that he is functionally illiterate. According to Demers, he never really learned to read or write because of his abusive childhood in Montreal. He covered for himself by asking secretaries and public relations people to read letters for him, claiming he couldn't read English well enough to understand them (though he speaks English and French equally well). When he served as general manager of the Tampa Bay Lightning, he brought in Cliff Fletcher and Jay Feaster as his assistants. -* Wikipedia.

As it turned out, they did most of the work a general manager would normally do because he knew he couldn't do it himself.

For his courage to speak out about his illiteracy, he became the most visible spokesperson for the need to overcome this societal problem. He was rewarded for his courage in 2009 by an appointment to the Senate.

Secondly, illiteracy can also be caused by other challenges, such as language barriers and lack of educational access. As a young university student, I was very idealistic. I was also restless and soon befriended another fellow who shared my same ambitions of wanting a new experience while offering ourselves in some form of public service. We decided to join the volunteer organization, **The Company of Young Canadians**. Our mission was to teach basic literacy to adult aboriginal students. Our students varied from young high school drop outs to grandmothers and grandfathers. Both of us later recalled that the most satisfying, though humbling experience, was to watch the transformation

that occurred when a 65 year old grandmother was finally able to read to her grandchildren or understand the bill when she bought groceries. And just imagine her enthusiasm as she told her grandchildren that they absolutely needed to stay in school!

Finally, I would like to share with you a very practical method of overcoming a common modern-day problem - **How to teach children the value of money**. We have all heard it countless times, usually from an older generation. "Kids today don't know the value of a dollar!" or some similar pronouncement. Part of the cause for this problem is very simple. The hard work and resulting prosperity of prior generations, combined with technological advances that remove the need for hard manual labor, has worked really well. It has worked so well that our children and grandchildren are not required to work so hard. So I suggest we should all quit blaming the kids! Instead, consider the following practical example.

This story recounts an eloquent solution that I have described to my clients some years ago. A very successful business woman decided to retire from the rigorous demands of the banking world so she could work for a nonprofit organization. She also decided to find a way to address the problem of children's financial awareness. She started with her own three children. Here's how she described her formula.

She gave each of the three children household tasks, for which they would all receive and earn an allowance. They were all expected to complete the tasks on time, and then each week mom would give them their allowance. So far, so good. However, there was one more condition. Each child would divide his or her allowance into four different parts. 70% of the money could be spent right away each week, and the remaining 30% would be divided into three other categories. 10% to be spent in one month for something they wanted. 10% to be saved for one year for a very special treat. And 10% to be given to a charity of their own choosing. What a simple but effective approach to teaching financial literacy! If you agree, please pass it on.

Today's modern world offers so many tempting ways to spend money that it can be very easy to feel overwhelmed. While overcoming financial illiteracy can be very daunting, and is often at the root of so many family challenges, our response is to keep our clients informed about the opportunities and risks to their financial wellbeing. That is why all of us at The Tyler Group have invested so heavily in learning all about the opportunities of investment, taxation, estate planning, smart borrowing and debt repayment to name just a few topics in the language of financial literacy. We also have delivered countless written financial plans so our clients could achieve their goals and dreams. We are all dedicated to continuing these efforts and welcome your questions and inputs. Be sure to let us know if you feel we are helping you and your family achieve higher levels of financial literacy. In our next issue of ***Sound Advice***, we will share with you 3 smart choices for improving your investment returns and avoiding unnecessary risk taking.

THE TYLER GROUP Financial Services
2330 McIntyre Street, Regina, SK S4P 2S2

Phone: (306) 525.5250 Toll Free: 1 - (877) 225.5250
Fax: (306) 585.6117 Toll Free Fax: 1 - (877) 255.0122

Email: info@thetylergroup.ca **www.thetylergroup.ca**

At **THE TYLER GROUP** we accept new clients on a referral basis. If you know a colleague, friend, or family member who could benefit from our advice, please call us.