

- *Client Information Summary* -

Strategic Decision Making

Over the years we have had the opportunity to observe first hand how people make financial decisions. In many cases, we have also had the opportunity to observe the consequences of those decisions, as today's decisions do indeed determine tomorrow's financial results.

Unfortunately, the decision-making mechanism used by many people is not always rational. For example, we have seen decisions based on:

- ◆ An emotion of the moment
- ◆ An approaching deadline
- ◆ A friend's opinion
- ◆ A "hot" tip
- ◆ The possibility of getting rich quick
- ◆ Unfounded fears caused by lack of knowledge

However, for decision making to be effective, the thought process leading to the decision should be orderly, methodical, and comprehensive. The terminology that we use to describe the process is *strategic*. We view the process as having six steps, as illustrated on the diagram below.

We will now describe each of the steps in some detail.

Goals and Objectives

The first step should always be having a good definition of both your short-term and long-term objectives. This would include such things as knowing:

- ◆ When you would like to retire.
- ◆ How much monthly income you would want to support your chosen lifestyle.
- ◆ What else you may need money for (children's education, paying off debts, buying a recreational property, etc.), as well as when you will need the money.
- ◆ How you would like to have your estate distributed at time of death.



The more clearly you can define your goals, the easier it is to make certain that each of the decisions you make, are moving you in the direction of attaining your goals.

Information

Knowing where you are today is vital. Often people make bad decisions because they have failed to fully consider their current position. The information required to thoroughly assess your current position is:

- ◆ An accurate picture of where your money is going (cash flow).
- ◆ A statement of net worth, including personal assets, investments (managed assets), and business assets.
- ◆ A complete description of any employment benefits, including both group insurance and pension benefits.

- ◆ An overview of your existing personally owned insurance policies (life, disability, long term care, critical illness, auto, property and casualty).
- ◆ A summary of existing Wills, trusts, power of attorneys, marriage contracts, separation agreements, business agreements, etc.
- ◆ A profile of your risk sensitivity, including a survey of your attitudes toward various types of investments.

Analysis

Knowing where you want to go (objectives) and where you are now (information) provides the foundation for knowing what type of analysis is required. In most situations, the analysis performed should include:

- ◆ An analysis of your current situation that identifies if you are heading in the right direction to achieve all of your goals and objectives. We refer to this as a *life goals analysis*.
- ◆ An analysis of your cash flow, including an income tax projection, designed to identify problems and/or opportunities.
- ◆ An analysis of your situation in the event of pre-mature death or disability, focusing on areas of vulnerability.

The analysis required may also include an examination of your existing investments, or perhaps, even a detailed analysis of the projected settlement costs of your estate at time of death.

Financial Strategy

Only after completing the appropriate analysis of your current situation are you in a position to develop a meaningful strategy. The strategy will tell you what you need to do differently to achieve all your objectives and usually includes the following factors:

- ◆ How much you need to save each year (if any).
- ◆ The target rate of return on your investments, having regard for your personal risk sensitivity.
- ◆ How your debt will be reduced over time.

The financial strategy is actually a set of instructions or a prescription for changes in your current behaviour. It can be likened to going to your family doctor and having a check-up. As a result of the check-up your doctor might tell you to make some changes in your diet, to exercise or perhaps have some additional tests done to ensure that your health is correctly diagnosed. The same is true with a financial strategy. It will tell you if you have to change your savings patterns. If you should adjust how you approach investment decisions. It might also tell you that it's impossible for you to achieve all of your financial objectives given your current resources. Which will mean some revisions in your expectations. The key is to have a strategy upon which your future financial decisions can be based.

Advice and Recommendations

The advice and recommendations (called an action plan checklist) should provide a specific outline of the steps you need to take to make the strategy work, as well as to achieve any other objectives. For example, if the strategy involved saving \$10,000 per annum to meet your capital accumulation requirements and your current cash flow indicated that you could save only \$5,000, the advice would have to include specific ideas to reduce expenses, lower your taxes, or reduce the carrying cost of your debt by \$5,000 per annum, to make it possible to save the full \$10,000. Or, if the target rate of return of your investments was 9% and you were currently only averaging 7%, the advice should detail specifically what changes you need to make to get 9%.

Other advice and recommendations should also be developed to make certain that other *non-accumulation objectives*, such as the distribution of your estate at time of death, are achieved by following the advice. If you are already financially

independent, that is, you have already accumulated enough to meet all of your future income requirements, much of the advice that you require would relate to these non-accumulation objectives.

Decisions for Action

A plan is only a plan until it is put into action. This last step is the actual doing. Any deliberation should occur during the previous five steps. Once this stage is reached, turning the objectives into reality only takes place by “doing”, or following the advice.

If you are your own advisor, the responsibility will rest solely with you for all six of these decision-making steps. Perhaps that’s why many people working on their own don’t achieve all of their objectives. Rather than following the steps as outlined to make decisions on a *strategic* basis, people often lapse into making decisions on a transactional basis considering only one area of their financial world, or only one objective in isolation. Our experience has been that only the most disciplined people can perpetually make decisions strategically. Most everyone occasionally gets trapped into making a decision based on an emotion of the moment, an approaching deadline, or herd psychology (doing what everyone else is doing).

Attainment of your goals and objectives is a . . .

JOINT RESPONSIBILITY

If you are working with a financial advisor, the responsibility should be shared in this way. Steps one and two, the identification of your *goals and objectives* and the gathering of *information* on your current situation will be heavily dependent upon you. Your advisor will not know your *goals and objectives* unless you tell them. Your advisor will also have to rely on you to provide the needed *information* to keep them informed of changes in your personal situation such as; pay increases/decreases, changes in employment benefits, and changes in responsibilities or personal family situation.

With knowledge of your *objectives* and up to date *information*, your advisor then should assume the responsibility of performing the required *analysis*, developing the *strategy*, and offering specific *advice and recommendations* to make the strategy work. The last step, the *decisions for action*, will of course be your responsibility, but even here, a good advisor will make it easier by continuing to work with you, and offering gentle “prods” as required.

NOT A ONCE IN A LIFETIME PROCESS!

Adherence to these six steps for effective decision-making will ensure that you achieve all of your objectives in a far more effective manner than any other method of decision-making. Conversely, failure to make decisions *strategically* often results in years of hardship and disappointment. Today's decisions do determine tomorrow's financial destiny.

When should you start making decisions on a *strategic* basis? When you are out of debt? When you “get organized”? The answer is an emphatic *no!* *Today* is the best time to begin. Why? Simply because the *strategic decision making process* can be used effectively to achieve *any* and *all* financial objectives. But, understand that the process should be continuous. Each time *objectives* are realized, or changed, each time *information* changes; a new *analysis*, and new *strategy*, and/or new *advice* may be required.

How long should you follow this process of making decisions on a strategic basis? Until you are financially independent? Until you are “on track”? The answer is quite simply - *always*. Following this simple process allows you to create and preserve wealth! Thus, we encourage you to begin making all of your financial decisions on a strategic basis right now. If today's decisions determine tomorrow's financial destiny, shouldn't today's decisions *always be* the right ones?