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FOR EDUCATION PURPOSES ONLY

Financial Excellence

In today's financial marketplace, a well-maintained portfolio is vital to any investor's success. As an individual investor, you need to understand how to determine an asset allocation that best conforms to your personal investment goals and strategies. Your portfolio must meet your future needs for capital and/or income and gives you peace of mind. Investors can construct portfolios aligned to their goals and investment strategies by following a systematic approach.

NEW THINKING IS ESSENTIAL – Remove the stumbling blocks that suggest that you are not capable of managing your OWN money!

For many individuals, any discussion on the stock market and investing brings **FEAR AND DOUBT.**

IMMEDIATE CROWD REACTION WHEN YOU SUGGEST STOCK MARKET INVESTMENT

Let's debunk some of the popular myths:

- **The stock market is a form of GAMBLING:**

Q. Why was the stock market created?
A. It was created to raise CAPITAL for companies to expand.

Example:
Let's say ABC Co was in the oil rig-building business. It has an opportunity to drill in the North Sea. To do so it needs a specialized oil rig which will cost $ 1.5 billion to build. ABC Co has approx. $ 250 million that it can draw from its bank account. Where will it go for the remaining $ 1.25 billion need? Banks will NOT lend ABC Co the $ 1.25 billion because they will not accept the 'risk'. Risk? Yes, what if they do not strike oil, how will the repayment of the loan be made?

However, the banks may be interested in debt financing such as bonds assuming that they are comfortable with ABC Co 'risk'. A group of (say) 10 banks may be willing to 'underwrite' up to $ 250 million with each bank being exposed to $25 million of ABC Co risk.

So far, we have accounted for $ 500 Million ($ 250 Million from Cash Account & $ 250 million from Bonds – Bank Debt)

For the remaining requirement of $ 1 billion, ABC Co will likely issue shares – let's say at $10 per share i.e. 100 million shares to the public (via Institutional investors e.g. Merrill Lynch; Goldman Sachs etc.) – raising $ 1 billion from the 'market'.

Summary:

Cash from ABC Co	$ 0.25 billion
Bank Debt (Bonds)	$ 0.25 billion
Equity Market	$ 1.00 billion

Why would the 'public' buy ABC Co shares? The assumption (based on one's own research) is that the North Sea rig will hit a 'gusher' and generate lots of profit for ABC Co. In that case, the $ 10 ABC CO shares will increase in value to – let's say $ 20 per share which will give the investor (who took a risk), a 100% return on his original investment. While this is an unlikely scenario (i.e. a 100% return), the point is that investors get a higher return from stock market investments (either through share price appreciation or dividends or both)than in any other form of wealth building strategies.

- **The stock market is very RISKY.**

Any venture is risky when entered into without knowledge.

Q. Would you drive a car without having learnt to drive?
Q. Would you fly a plane without having learnt to fly?
Q. Would you put your money in a bank that has no offices in Canada?

No – all of the above would be risky.

- **You need a PhD in finance to understand stock market investments.**

This is a myth propagated by the financial services industry so that you are beholden to them. That's the reason they have 'certified' financial planners who are really sales people in camouflaged in "expert" clothing. Recent activities in Wall Street clearly illustrates that there is no such thing as "Smart" money.

Anyone who has the 'knowledge' and the 'discipline' can invest in the stock market with CONFIDENCE and CONSISTENCY.

- **You can't beat the stock market.**

Beating the stock market's own performance is not possible, and those individuals that do actually accomplish this feat will not have their "luck" last for long. Don't bother trying to outsmart the stock market, just accept that you aren't going to outsmart the millions of other investors who believe the stock market isn't beatable.

The stock market is able to be beaten in terms of performance! Investors and traders, do it every year, and some do it every year consistently. Most investors simply don't have the "Knowledge & Discipline" to actively manage their portfolios and thus do not have the ability to outperform the stock market over the long term, which is why this myth refuses to die.

- **When someone makes money, someone else losses it**

This is the belief that the stock market is a zero-sum game. So, when one investor losses money on a stock, someone else has gained that money. In essence, it is the belief that money never grows in the stock market but is simply transferred from the ignorant to the savvy investor.

The stock market is ***not*** a zero-sum game. What allows the stock market to go against this belief is that over the long-term investors can all profit as long as the stock market is constantly going higher. So even if I lose some money on a few stocks this year and gain on some others, if I invest for the long term I will be profitable as will all other investors since prices are continuously going higher over the long term. Why? Imagine the wealth being generated in the Global economy e.g. China, India etc.? There are NEW companies that never existed just a few years ago:

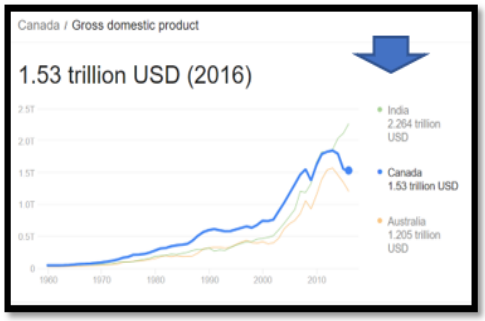
What are 'FAANG Stocks'?
FAANG is an acronym for the five most popular and best performing tech stocks in the market:

Facebook, **A**pple, **A**mazon, **N**etflix, and Alphabet's **G**oogle

Facebook (FB), Amazon (AMZN), Apple (AAPL), Netflix (NFLX), and Alphabet (GOOG) are the five technology giants trading publicly in the market today, as of 2017. Wall Street grouped these companies into one acronym to capture the collective impact that these companies have on the markets.

As of Mar. 20, 2018, the market capitalization of these companies totalled to $472.38B + $760.36B + $888.66B + $136.92B + $757.54B = ***USD $3.015 trillion.***

VERSUS



WHY WEALTH MANAGEMENT?

Unfortunately, most individuals/families have no idea of what 'wealth management' is and why they need to manage it.

"A good man leaves an inheritance to his children's children...."
Proverbs 13:22

TERMINOLOGY

Annuitant - For RRSP purposes, the individual who is entitled to receive the retirement income generated by an RRSP when the assets of the plan are invested in an annuity, life income fund (LIF), or registered retirement income fund (RRIF).

Annuity - A contract sold by an insurance company designed to provide regular income payments to the holder for life (a life annuity) or a defined period (a fixed term annuity), usually after retirement.

Asset mix - The percentage of your investments held in stocks, bonds, and money-market instruments (treasury bills, certificates of deposit, short-term government bonds, and commercial paper).

Beneficiary - For RRSP purposes, an individual designated as the heir to the assets of an RRSP in the event of the annuitant's death.

Bond - Certificate issued by a borrower, usually a government or corporation. A bond will normally have a fixed interest rate and a set maturity date, at which time the principal will be repaid in full. A typical bond will have interest coupons attached, which are redeemed annually or semi-annually.

Book value - The original purchase price of an investment.

Canada Pension Plan (CPP) – A contributory, earnings-related social insurance program which ensures a measure of income protection to contributors and their families against the loss of income due to retirement, disability or death. Each working Canadian contributes to the plan in the form of either payroll deductions or, for the self-employed, directly via CCRA. The goal of the CPP – along with Old Age Security and the Guaranteed Income Supplement – is to provide retired Canadians with a minimum level of retirement income. (Source: Department of Finance Canada)

Canada Customs and Revenue Agency (CCRA) – Formerly Revenue Canada. Among other functions, this federal organization issues regulations regarding registered plans in Canada and frequently audits and monitors them.

Canada Premium Bond (CPB) - A new savings product for individual Canadians, introduced by the Government of Canada in 1998. It offers a higher interest rate compared to the Canada Savings Bond and is redeemable once a year on the anniversary of the issue date or during the 30 days thereafter without penalty. (Source: Department of Finance Canada)

Canada Savings Bond (CSB) – CSBs are currently offered for sale by most Canadian financial institutions to individual Canadians. CSBs pay a competitive rate of interest that is guaranteed for one or more years. They may be cashed at any time and, after the first three months, pay interest up to the end of the month prior to encashment. These bonds are considered very safe investments.

Capital gain (loss) – The profit (or loss) generated on the sale of an asset. It is calculated as the difference between the sale price and the purchase price. If a share is sold at $50 and was purchased at $45, there is a capital gain of $5.

Carry-forward – The difference between an individual's maximum allowable RRSP contribution and the amount of the individual's actual contribution.

Common stock - A security representing part ownership in a company, generally carrying the right to vote on major decisions and to receive dividends.

Compound interest - Interest that is earned on interest that has previously been earned. Compound growth helps to further increase the size of your portfolio as you earn income on both your original amount and any previous interest. A deposit compounded at 10 per cent annually will double in about seven years if no money is taken out.

Contribution limit – The maximum deduction that may be claimed for an RRSP contribution in any year.

Deduction Limit Statement – The special section in the Notice of Assessment received from the Canada Customs and Revenue Agency that calculates an individual's RRSP contribution limit for the current year.

Deferred Profit-Sharing Plan (DPSP) - Plan registered under the Income Tax Act into which an employer may make tax-deductible contributions, determined by reference to profits, on behalf of their employees. Payments from the plan received by employees are taxable. (Source: Department of Finance Canada)

Defined Benefit Pension Plan - Plan that provides a pension that is generally calculated on the basis of final average or best average earnings and years of service. The amount of defined benefit pension that can be provided under a plan registered under the Income Tax Act is limited, in general terms, to the lesser of 2 per cent of the employee's best average earnings and $1,722 per year of service. The $1,722 limit will be indexed to increases in the average wage starting in 2005. (Source: Department of Finance Canada)

Defined Contribution Pension Plan - Plan that provides whatever pension income the accumulated contributions and return on investment in the plan will buy at retirement. Total annual contributions are limited to 18 per cent of earnings up to a maximum of $13,500. (Source: Department of Finance Canada)

Deflation - The average rate of decrease in prices.

Diversification - An investment technique intended to minimize risk by placing money in a number of securities. In a diversified portfolio, a decline in the value of one stock, for example, would not dramatically affect the overall value of the holdings.

Dividend - Payments made to shareholders of a company in the form of cash or additional shares.

Earned income – For RRSP purposes, earned income is the annual total of: employment income, net rental income, net income from self employment, royalties, research grants, alimony or maintenance payments, disability payments from CPP or QPP and supplementary UIC payments.

Guaranteed Investment Certificate (GIC) - Securities issued by financial institutions, such as banks and trust companies, for a specified term. GIC of up to five years issued by members of the CDIC are covered by deposit insurance up to $60,000.

Home Buyers' Plan (HBP) – A program that allows first-time home buyers to withdraw up to $20,000 from an RRSP for a down payment on a qualifying residence. This withdrawal is not taxed as income and no interest is owed on those funds. There are set terms governing the payback of the loan. Inflation - The average rate of increase in prices. When economists speak of inflation as an economic problem, they generally mean a persistent increase in the general price level over a period of time, resulting in a decline in

a currency's purchasing power. Inflation is usually measured as a percentage increase in the consumer price index (CPI). Canada's inflation target, as set out by the federal government and the Bank of Canada, aims to keep inflation within a range of 1 to 3 per cent. If the rate of inflation is 10 per cent a year, $100 worth of purchases last year will, on average, cost $110 this year. At the same inflation rate, those purchases will cost $121 next year, and so on. (Source: Department of Finance Canada)

Interest - Payments made by a borrower to a lender for the use of the lender's money. A corporation pays interest on bonds to its bondholders.

Life Income Fund (LIF) - A Life Income Fund (LIF) is similar to a RRIF in that it provides regular retirement income payments on a predetermined basis. In general, the rules and regulations governing LIFs vary according to pension regulations. A LIF allows you to withdraw an annual payment amount of your own choosing, subject to both minimum and maximum annual payment amounts. In some provinces, a LIF must be used to purchase a life annuity at age 80. Other provinces allow a LIF to be converted to an LRIF.

Lifetime over-contribution limit - You are allowed to exceed your RRSP contribution limit as long as you don't exceed the lifetime maximum over-contribution limit of $2,000. If your over-contribution is more than this, the Canada Customs and Revenue Agency will charge you a penalty tax of one per cent of the excess per month as long as it remains in the plan.

Liquidity - The ability to convert a security to cash quickly.

Locked-in Retirement Account (LIRA) - If you leave an employer prior to retirement, you may be entitled to pension credits from contributions made to a registered company pension plan while you were employed. Rather than leave these funds under company management, you may choose to transfer your pension credits to a Locked-in Retirement Account (LIRA), also known as a Locked-in RRSP. Generally speaking, funds in a LIRA may be invested in the same way as an RRSP. Like an RRSP, a LIRA matures at the end of the year in which the holder reaches age 69. At that time, you must convert your LIRA to a Life Income Fund (LIF), Locked-In Retirement Income Fund (LRIF) (in Alberta, Saskatchewan and Manitoba only) or life annuity. You may not cash in your plan or take out a lump sum.

Marginal Tax Rate - The ratio of the increase in tax to the increase in the tax base (i.e. the tax rate on each additional dollar of income). A single individual earning $40,000 who experiences a $1,000 increase in income and has to pay an additional $452 in income tax has a marginal tax rate of 45.2 per cent ($452 divided by $1,000). (Source: Department of Finance Canada)

Money Purchase Pension Plan – see Defined Contribution Pension Plan.

Mutual Fund - A mutual fund is a collection of stocks, bonds, or other securities owned by a group of investors and managed by a professional investment company.

Non-registered investments - Non-tax-sheltered investments, or those on which earnings are recognized as income in the year they are earned and taxed according to Canada Customs and Revenue Agency regulations.

Old Age Security (OAS) - A monthly payment to Canadians age 65 and over. OAS payments are taxable and are reduced for individuals with net income in excess of $55,309. (Source: Department of Finance Canada)

Overcontribution allowance - An amount (up to $2,000) of excess contributions permitted to a registered

retirement savings plan (RRSP) to provide a margin of error for overcontributions without incurring a penalty tax of 1% a month.

Pension adjustment (PA) – The amount contributed annually to a registered pension plan, either by an employer or employee. The PA is reported on the T4 slip that you receive from your employer. To find out how your PA is calculated, ask your employer or pension administrator.

Pension adjustment reversal (PAR) - You may have noticed that after 1998 you may have additional contribution room from a Pension Adjustment Reversal (PAR). The purpose of the PAR is to restore RRSP contribution room that was previously "lost" from Pension Adjustments (PAs).

Quebec Pension Plan (QPP) - A contributory, earnings-related social insurance program which ensures a measure of income protection to contributors and their families against the loss of income due to retirement, disability or death. The plan operates only in Quebec; throughout the rest of Canada a similar program (the Canada Pension Plan) is in effect. (Source: Department of Finance Canada)

Rate of return - The level of earnings attained or expected from an investment over a period of time.

Registered Education Savings Plan (RESP) – A registered investment vehicle that allows an individual to save for a child's post-secondary education.

Registered investment - Any security that is held in a tax-sheltered plan approved by the Canada Customs and Revenue Agency.

Registered Pension Plan – A pension plan registered with the Canada Customs and Revenue Agency to provide tax relief for contributions.

Registered Retirement Income Fund (RRIF) - A RRIF is tax-sheltered like an RRSP and is set up with the proceeds from and RRSP, but instead of making contributions, you are required to make a minimum annual withdrawal based on your age. This withdrawal is part of your taxable income for the year. The money in your RRIF continues to grow tax-sheltered until withdrawn as income. You can set up your RRIF at the same financial institutions that sell RRSPs.

Registered Retirement Savings Plan (RRSP) - An investment plan registered with the Canada Customs and Revenue Agency which allows an individual to accumulate savings and earnings for retirement on a tax-sheltered basis.

Revenue Canada – see Canada Customs and Revenue Agency.

Self-directed RRSP - When you set up a self-directed RRSP, you can make all your RRSP investing decisions yourself – what securities you'll hold, what your asset mix will be and when to buy or sell. Self-directed RRSPs offer you complete control over your RRSP and may be worth considering if you are comfortable making your own investment decisions. Financial institutions, full-service and discount brokers offer them, as do financial planners and a number of commission-free mutual fund dealers.

Spousal RRSP – An investment plan that is set up for the benefit of a spouse or common-law spouse. Contributions and withdrawals are subject to rules and regulations set down by Canada Customs and Revenue Agency.

Survivor benefits - Benefits to which a surviving spouse or other specified beneficiary is entitled upon the death of the policy or plan holder.

Treasury bill - Short-term government debt. Treasury bills bear no interest but are sold at a discount. The difference between the discount price and par value is the return to be received by the investor.

Trustee - An individual or organization that holds or manages and invests assets for the benefit of another.

Unused deduction room – Also unused contribution room. The difference between an individual's annual RRSP deduction limit and the amount they actually contributed. The unused amount is "carried forward" and may be contributed at a future time.

Vesting - In pension terms, the right of an employee to all or part of the employer's contributions, whether in the form of cash or as a deferred pension.

Withholding tax - The amount of money a financial institution is legally obligated to withhold at source and remit to the Canada Customs and Revenue Agency on funds withdrawn from an RRSP or on RRIF income payments which exceed the minimum annual income payment amount.

SOURCE: http://www.globeinvestor.com/resources/personalfinance/rrsp/glossary.html

Didn't find it here, just GOOGLE it!

www.google.com

The Course Overview:

I. BASIC REQUIREMENTS:

A successful investor requires two things:

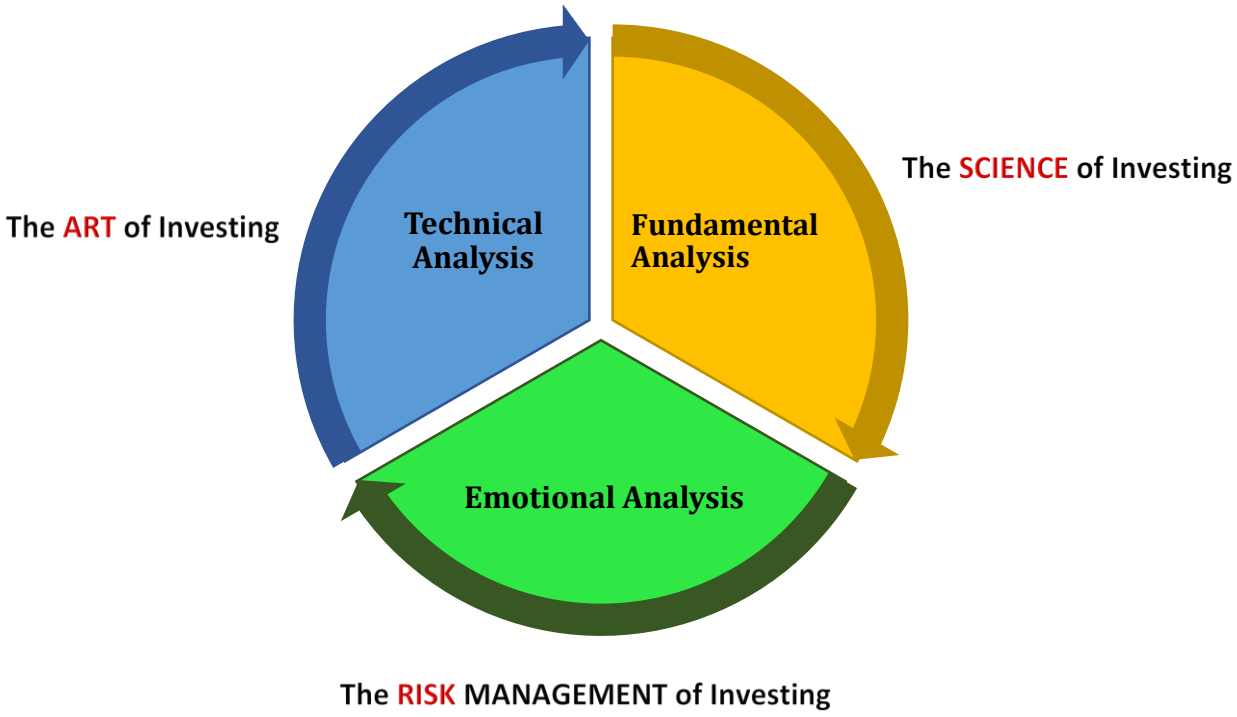
- ☐ **EDUCATION & TRAINING** – provided by Train2Invest Inc. AND
- ☐ **DISCIPLINE & MOTIVATION** – provided by YOU!

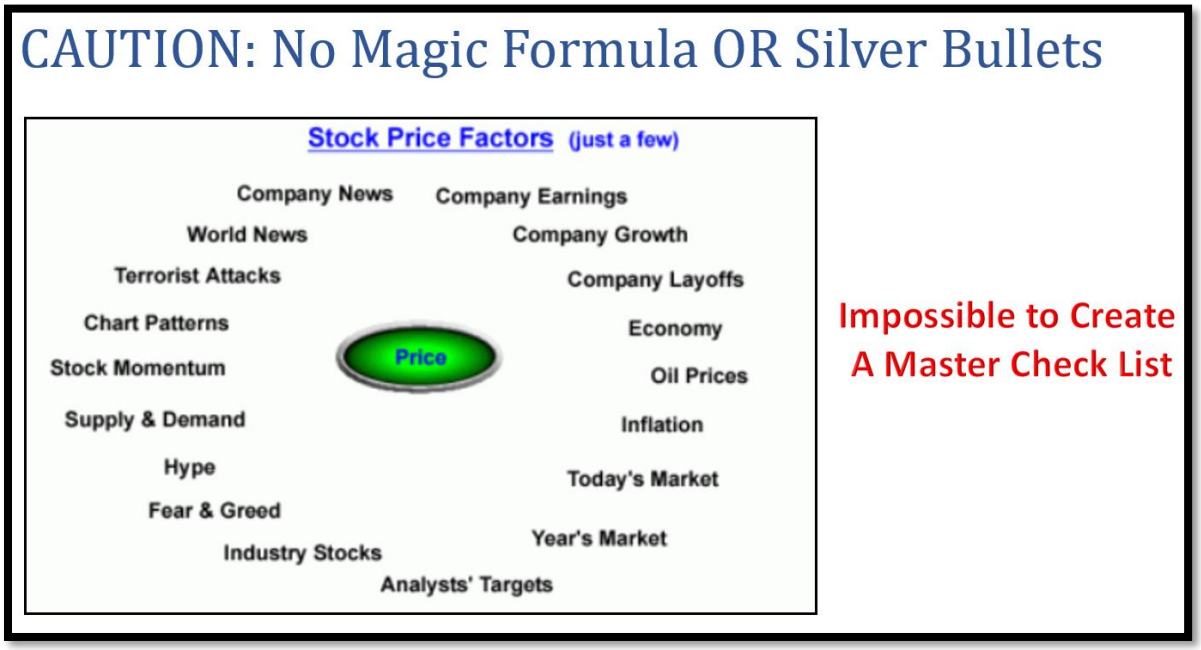
New Thinking Required ⇨

By understanding
the process of gaining **1% within 14 days**
(Targeted Time Frame)
Achieving approximately **30% per year**
(On a compounded basis)

II. BASIC CONCEPTS:

- ☐ **The SCIENCE of Investing – Fundamental Analysis**
- ☐ **The ART of Investing – Technical Analysis**
- ☐ **The ABILITY to manage risk – Emotional Investing**

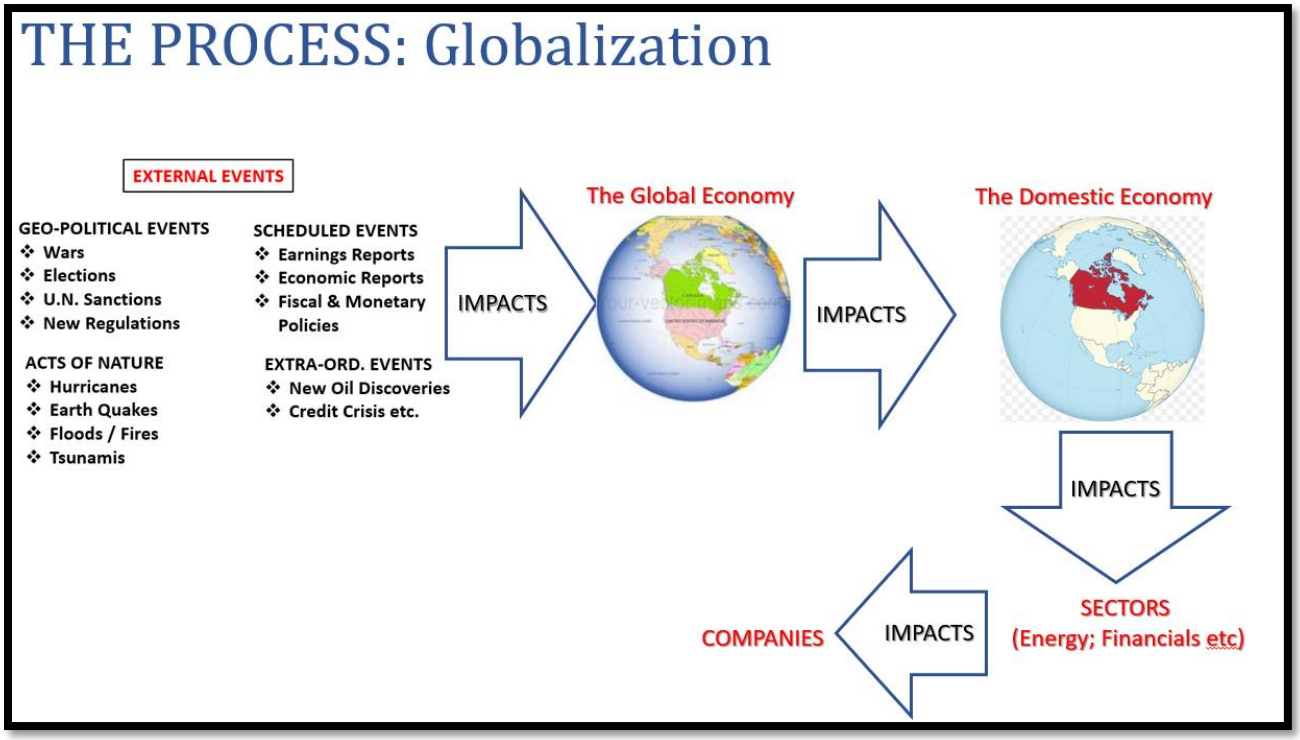


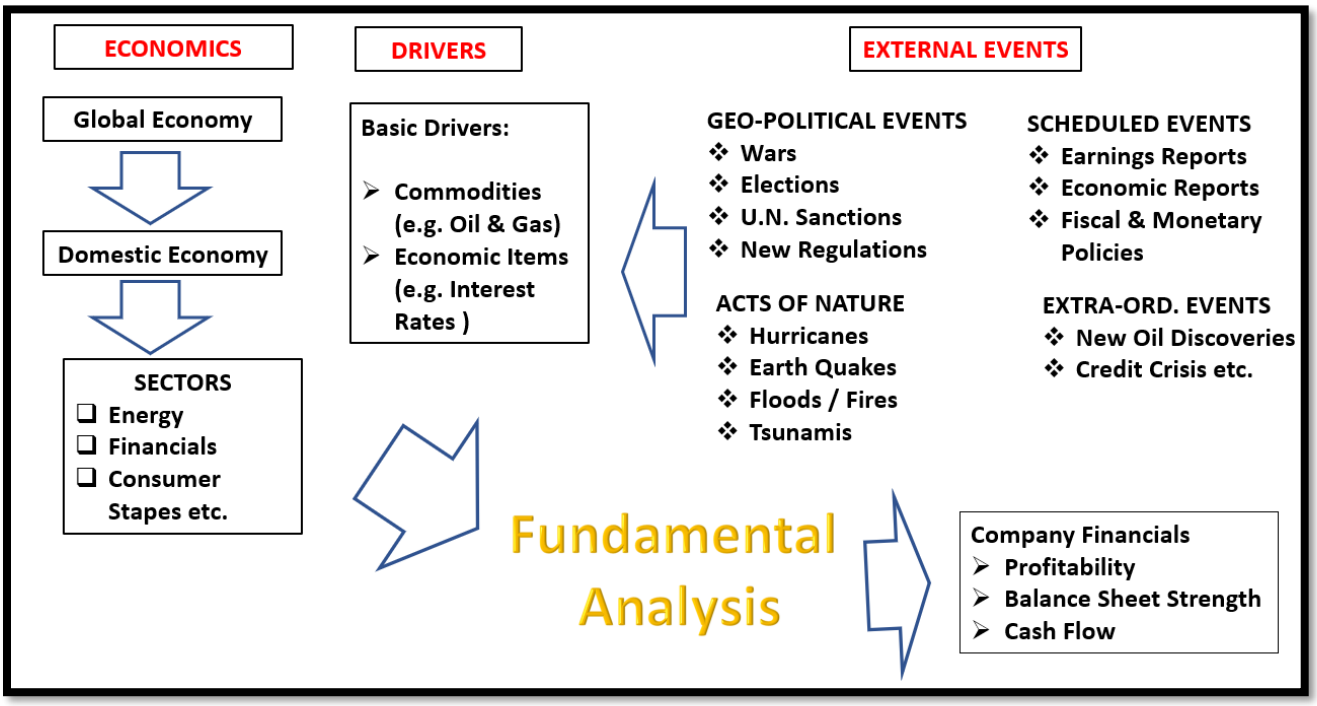


One of the major challenges to investing is an attempt to create a **MASTER CHECK-LIST** which would then perform on **AUTO-PILOT**

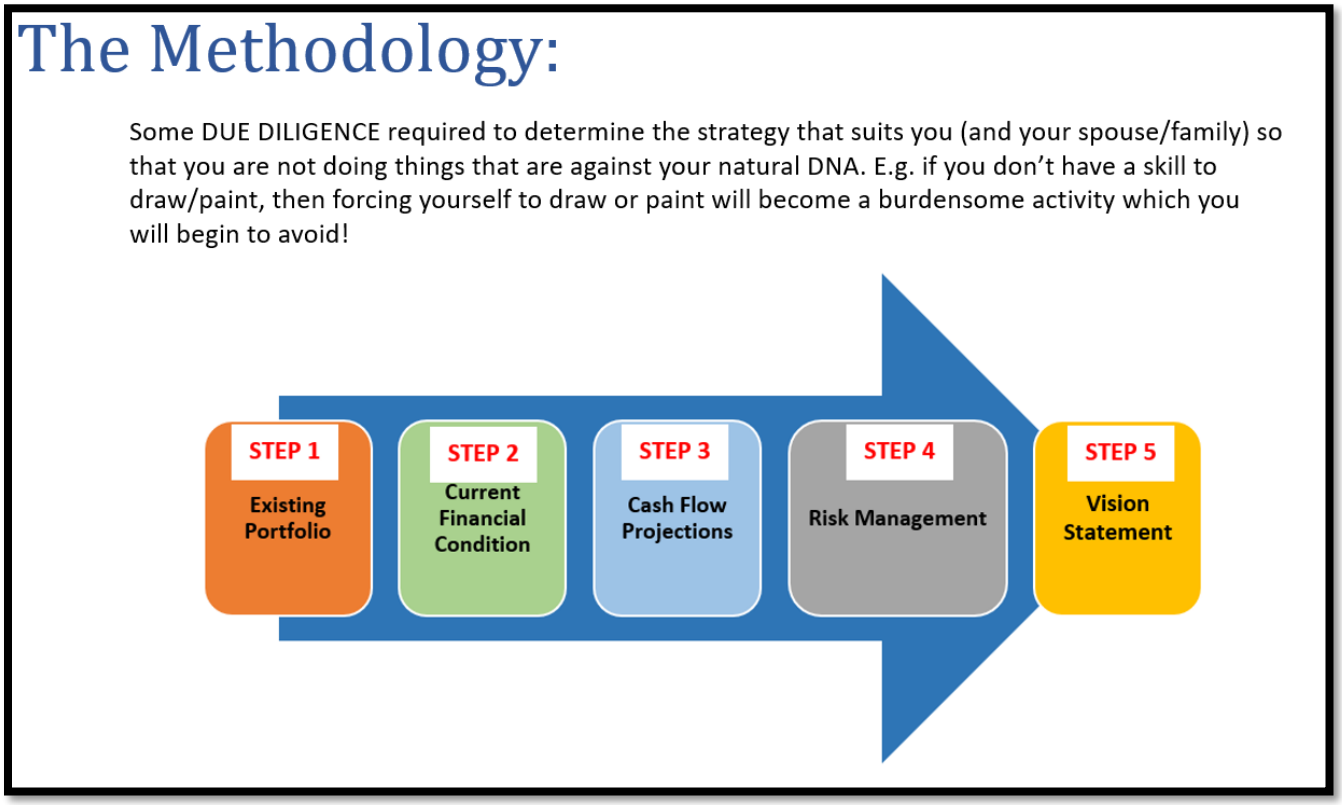
i.e. If A, B, C etc. occurs, then XYZ will be the result

NOTE: Trades are conducted PRIMARILY by human beings – therefore by definition it is impossible to forecast ACCURATELY how they will react to a set of NEWS Data!

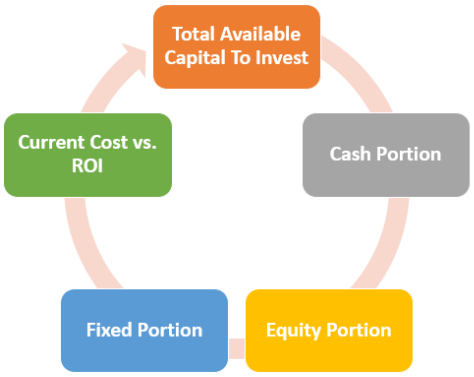




Do you have the financial stamina to manage your own portfolio?



STEP 1: Existing Portfolio



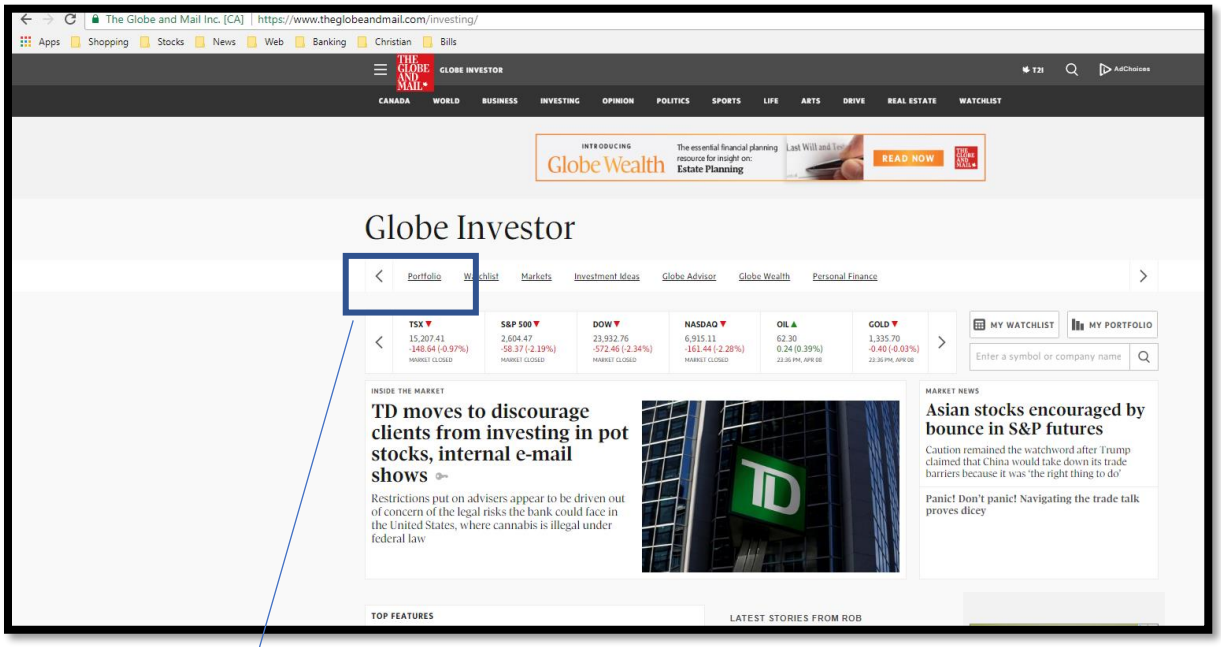
Questions To Be Answered:

1. **What is the COST of managing this portfolio?**
2. **What is the RETURN that you are getting?**
3. **What % of the portfolio can be easily LIQUIDATED in the case of an emergency?**
4. **How DIVERSIFIED is this portfolio?**
5. **What are the RISKS associated within the portfolio?**

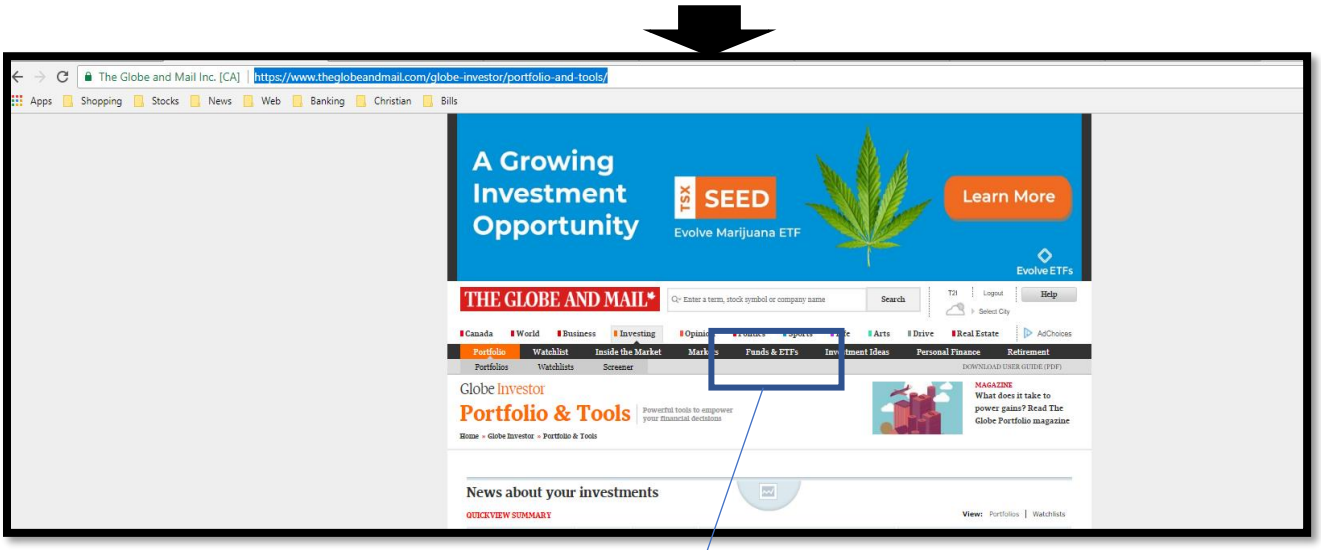
Begin by listing all your savings/investment accounts

Example: TFSA accounts, Savings Accounts, USD Cash accounts, RESP accounts, RRSP accounts, RIFF accounts, Pension plans, etc.…

RESEARCH MUTUAL FUND DATA:
https://www.theglobeandmail.com/investing/



CLICK ON PORTFOLIO
https://www.theglobeandmail.com/globe-investor/portfolio-and-tools/



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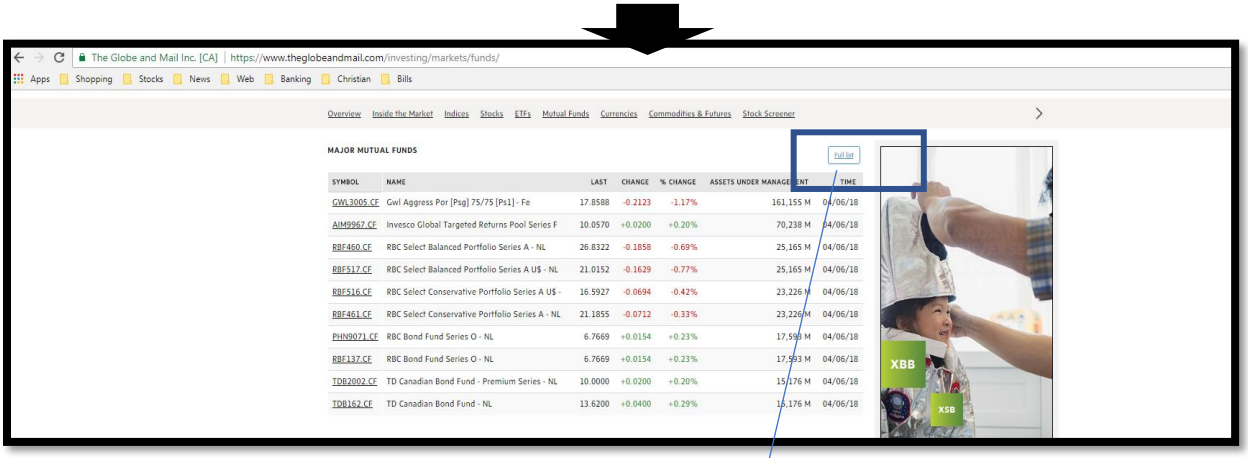
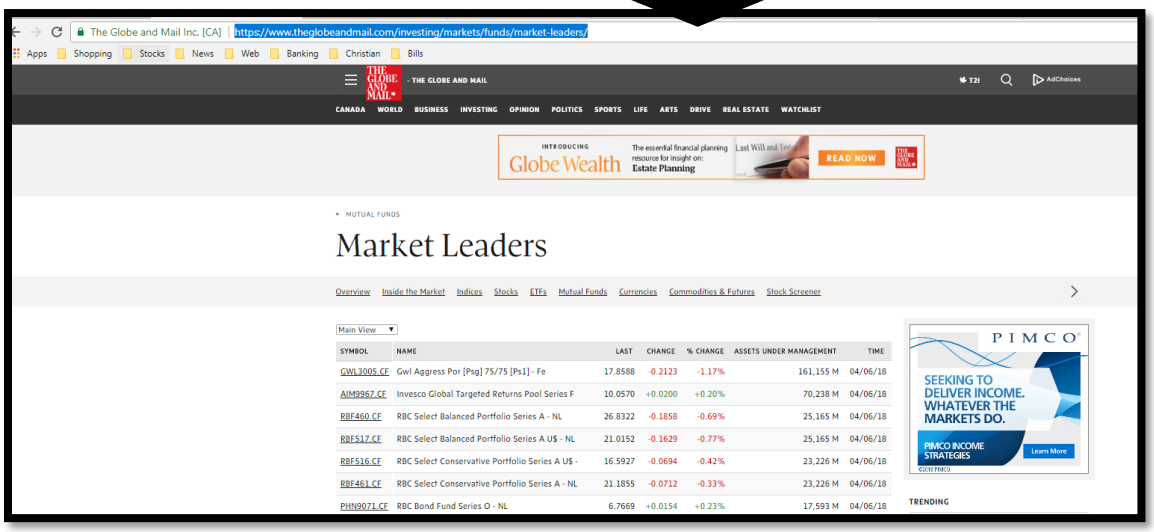
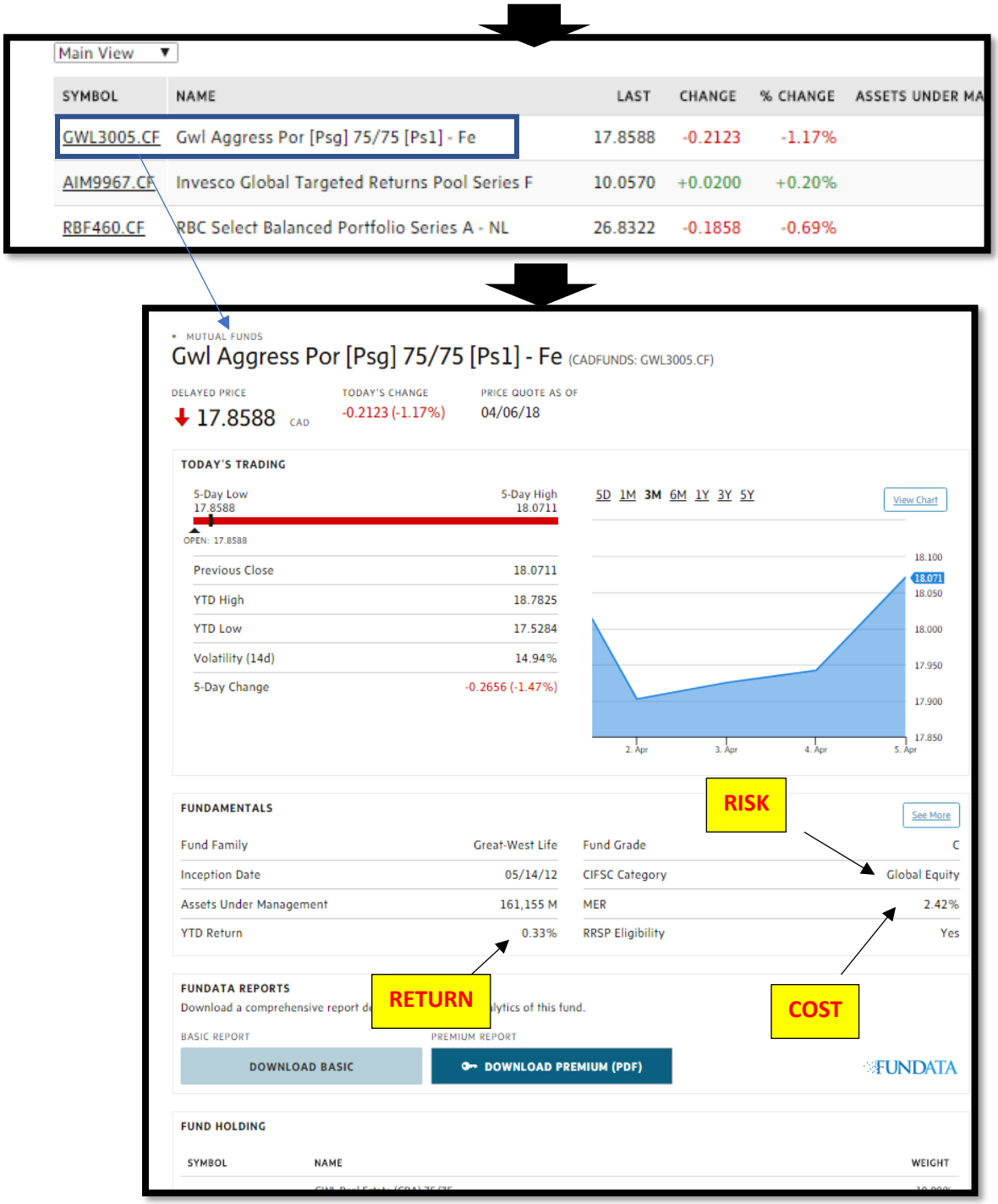


CLICK ON 'FULL LIST'
https://www.theglobeandmail.com/investing/markets/funds/market-leaders/

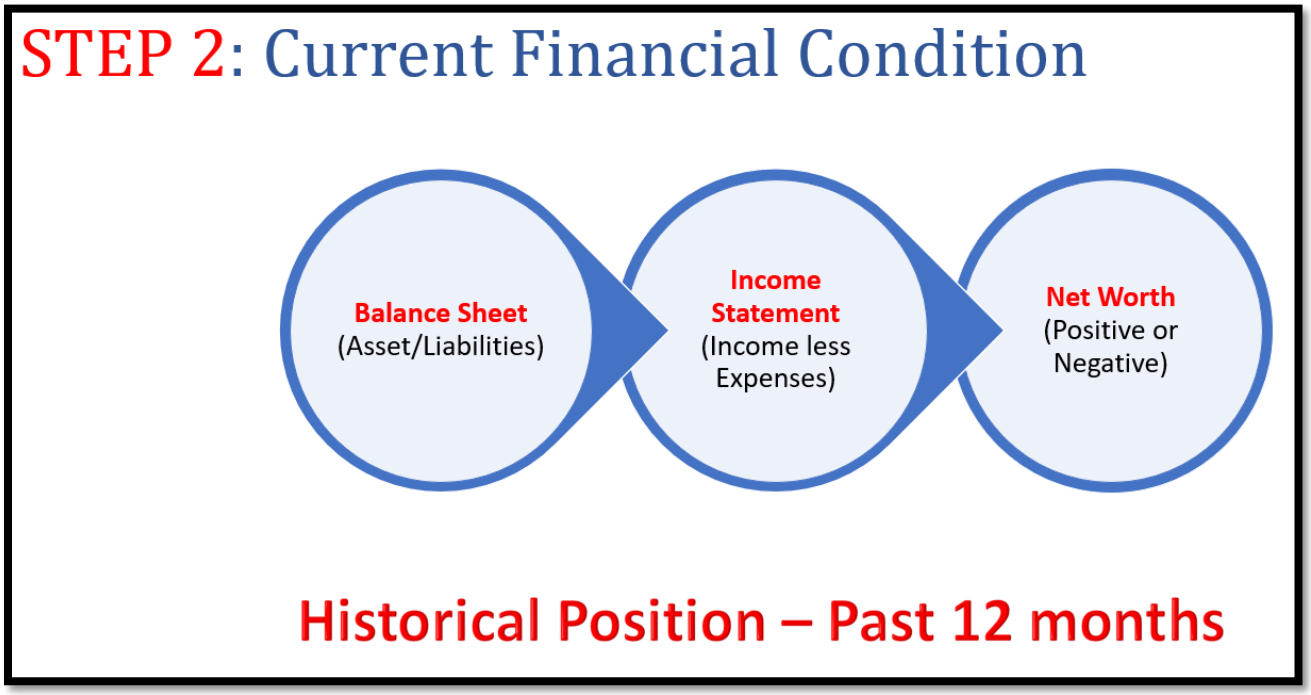


CLICK ON YOUR SPECIFIC HOLDINGS (e.g. GWL 3005.CE)



RISK- *Global Equity*: carries both Sovereign Risk (e.g. Syria) & Foreign Exchange Risk (e.g. Cdn$ vs. USD$)
RETURN vs. COST = 0.33% return vs. 2.42% cost

Determine the **RISK** (mutual funds/bonds/equity/GIC etc.) and **ROI** (Cost/Returns generated) – make a ARTICULATED decision to HOLD or EXIT – compute any loss and/or additional charges that may occur if you HELD or SOLD - (speak with your discount broker).



A. The **Income & Expense Statement** will reveal the amount of Cash Available at the end of the time horizon (e.g. monthly or quarterly etc.). It will also reveal your spending patterns as well as your debt load in terms of interest paid.

B. The **Balance Sheet** will disclose your NET WORTH (either positive or negative) at any given point in time and show your liquid and non-liquid assets as well your liabilities.

As you put pencil to paper, you will want to include such things as household income, retirement plans, savings accounts, certificates of deposit, mutual funds, brokerage accounts, life insurance cash values, real estate values, vacation ownership, all current and future loans and credit card debts, precious metals, art and jewelry collections, the value of any business balance sheets, and expected inheritance.

FINANCIAL VERIFICATION

VERIFICATION is about discovering all your assets and putting the truth about your finances onto a tangible document instead of keeping "track" in your head. You can look at your financial truth and decide on the necessary financial changes that you need to make. Your journey on the road to success must begin from where you are which is why verifying your starting point is essential. When you completed this project, you will have a clearer understanding of where you currently stand financially and what habits you need to keep and those that you may need to change.

The entire discovery process will probably take you less than an hour and your financial situation may come as a pleasant surprise or as a necessary wakeup call. This information is critical for you to compile if you want to create an accurate and complete financial roadmap for your future. It will help you clearly see the difference between where you are now and where you want to be. This exercise will take effort, but you need to ensure that you have the stamina required to perform the requisite due diligence and to realize your personal goals.

Creating your own financial statements will not only help you verify your own financial condition but is a prelude for analyzing a company's financial statements as an investor.

Look upon your household as a corporation and manage it like a chief financial officer.
Focus on two parts:

1. **Balance Sheet** – a snapshot of your financial situation at one point in time.
2. **Income Statement** - looks at your average monthly income and expenses.

A wise business owner reviews and updates these statements every three months.

BALANCE SHEET

Your personal balance sheet shows a snapshot of your financial position.

Your NET WORTH is the sum of your assets minus your liabilities (aka. What you OWN minus what you OWE).

EXAMPLE: PERSONAL BALANCE SHEET			
ASSETS		LIABILITIES	
Cash (Contingency Funds)		**Secured Loans**	
Savings Bank	$ 3,500.00	Mortage	$ 50,000.00
Fixed Deposits 3 Month	$ 5,000.00	Car	$ 12,000.00
M utual Funds (GIC)	$ 7,500.00		
Investments		**Unsecured Loans**	
Bonds	$ 5,000.00	Education	$ 5,000.00
Mutual Funds Bonds	$ 3,500.00	Credit Cards	$ 6,000.00
Gold Mutual Funds	$ 3,500.00		
Stock Mutual Funds	$ 15,000.00	**Other**	
Real Esate	$ 150,000.00	Dues	$ 1,250.00
Other		**Total (A)**	**$ 74,250.00**
Car	$ 12,500.00		
Jewelry	$ 2,500.00	NET WORTH	
		Assets	**$ 208,000.00**
		Liabilities	**$ 74,250.00**
		Assets - Liabilties (B)	**$ 133,750.00**
Total	**$ 208,000.00**	**Total (A + B)**	**$ 208,000.00**

Assets and Liabilities - Reach for a pencil, calculator, and a sheet of paper. On the sheet of paper create two columns, on the left side list all your assets and on the right-side list all your debts (liabilities).

What is an asset?

ASSETS

An asset is anything you own that has economic value. For example, cash or something that could be readily converted to cash such as property or GIC.

SHORT TERM ASSETS

- Anything that you can covert into CASH within 12 months e.g. GIC – 3 mth

LONG TERM ASSETS

- Assets that cannot be easily converted into CASH in the short term e.g. Property

SHORT-TERM ASSETS

Short-term assets are cash and anything you plan to convert to cash to pay down expenses over the next twelve months.

What do these include?

- Actual cash on hand
- Any cash in your bank account
- Certificates of deposits (CDs)
- Any securities (stocks and bonds) that you own

Like most of us, the Sample family does not have much cash on hand. They typically carry less than $500.00. How much cash do you have handy? A rough estimate to the nearest $100.00 works fine - no need to count every single penny in our change jar.

a) CASH ON HAND

SAMPLE FAMILY		YOU
Cash On Hand	**$ 500.00**	

Bank accounts - both checking and savings – if you have accounts at several banks, include them all.
Certificates of Deposit (CD's) – The Samples have $2,500 in their checking account. They have no other bank account (if you have GICs, be sure to include them).

b) SHORT TERM ASSETS

SAMPLE FAMILY		YOU
Checking Account	**$ 2,500.00**	

Securities - If you own stocks, bonds, or mutual funds, get the latest copies of your account statements. Enter the amounts shown as the MARKET VALUE of your holdings in the space provided below. Our happy couple had $7000.00 in open mutual funds as of their last account statement.

c) SECURITIES

SAMPLE FAMILY		YOU
Mutual Funds	$ 7,000.00	
TOTAL SECURITIES	$ 7,000.00	

If you have REGISTERED RETIREMENT ACCOUNTS do not enter them yet. They form part of your long-term assets.

So, our Sample family's short-term assets look like this:

Cash on Hand	$ 500.00
Checking Accounts	$ 2,500.00
Savings Accounts /CDs	$ 0.00
Securities	$ 7,000.00
Total Short-Term Assets	$10,000.00

LONG-TERM ASSETS

Long-term assets are those which you **do not plan to or are unable to** convert to cash over the next twelve months.

Examples of long term asset are items such as houses, automobiles, retirement accounts (e.g. RRSP), valuable collectibles, and jewelry. When you list these items, you need to list them at **their fair market value** (its current worth - not what you paid for them).

EXAMPLES:

- A 5-year-old truck would be worth 30-60 percent less than was paid for it. An adequate determination of long-term assets will require making some estimates.
- You bought your house for $280,000 but believe it has a current market value of $300,000. Your balance sheet should reflect the approximate value of your home today.
- You paid $5,000 for a top of the line computer five years ago. You suspect it is now worth only $500.00. Therefore $ 500.00 is what should be listed on your balance sheet.
- How about your vehicle, furniture, or DVD collection? You spent $5,000 on your stereo and feel you could sell it for $4,500 in the next year. You should just value it at $4,500, right? Unfortunately, not! You must set a reasonable long-term value on your belongings. Expect the stereo to continue to decline in value (called depreciation). Most "stuff" depreciates, in some cases down to zero.

The Sample family home has an estimated value of $550,000.00. And they have other long-term assets (jewelry, cars, and a personal computer) that total $42,000.

LONG TERM ASSETS

SAMPLE FAMILY		YOU
House	$ 550,000.00	

Let's now present the Assets for SAMPLE FAMILY with all our updated information

ASSET SIDE OF SAMPLE FAMILY BALANCE SHEET		YOU	
Short Term Assests	$		$
Cash	$ 500.00		
Bank - Checking	$ 2,500.00		
Bank - Savings / CD	$ -		
Securities	$ 7,000.00		
Total Short Term Assets (A)	$ 10,000.00		
Long Term (Non-Current) Assets			
House	$ 550,000.00		
Other	$ 42,000.00		
RRSP (*)	$ 5,200.00		
Total Long Term Assets (B)	$ 597,200.00		
TOTAL ASSETS (A + B)	**$ 607,200.00**		

(*) Mrs. Sample maintained an RRSP account through deductions from her paycheck!

TOTAL ASSETS of $ 607,200.00 – They seem to be rich, right? BUT wait…..we need to look at liabilities!

LIABILITIES

Most people do not own all their assets! Instead, most have borrowed money to pay for some of the things that they possess. These debts are called **liabilities** and like assets, they fall into two categories: short-term liabilities and long-term liabilities.

SHORT-TERM LIABILITIES

Short-term liabilities are any bills owed immediately which do not have a fixed term. Credit cards are often the greatest short-term liability. The average amount of credit card debt per Canadian household exceeds $8,000. Sadly, many seem unable to rid themselves of these financial burdens – or do not know that they should be trying to.

Calculate your credit card statements by adding up the amount owing on each into one grand figure - entering that on the line entitled *Credit Card debt.*

The Sample family owes the sum of exactly $18,500 on all their credit cards. Ouch!

Installment Debt

Are you paying any other minor debts off monthly? Examples: Store Cards (HBC /ZELLERS/ HOME DEPOT), Dental bills, medical bills, student loans, personal loans, Revenue Canada? These all fall under **installment debt.**

You need the total amount owed **- not the amount of your monthly payment.**

INSTALLMENT DEBT/SHORT TERM LIABILITIES FOR THE SAMPLES

Short Term Liabilities		
Credit Card Debt	**$ 18,500**	
Instalment Debt		
Dentist	**$ 15,000**	**(Orthodontics)**
Medical surgery)	**$ 32,300**	**(Optional cosmetic**
Home Entertainment	**$ 18,000**	**(Big-screen home theatre)**
Car loans	**$ 38,400**	**(Two cars)**
Graceland Travel	**$ 18,200**	**(European vacation)**
Cellular Nirvana contracts)	**$ 3,200**	**(Balance on cell phone**
Ben's Bathrooms	**$ 41,290**	**(Jacuzzi & tile work)**
Furniture Warehouse furniture)	**$ 18,500**	**(New living room**
Total Instalment Debt	**$ 184,890**	
TOTAL SHORT-TERM DEBT	**$ 203,390.00**	**A LITTLE ON THE HIGH SIDE?**

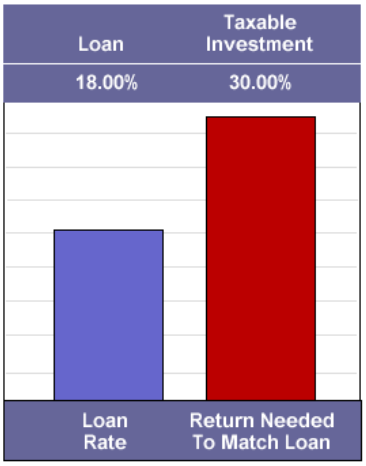
PAYING DOWN DEBT

an investment that's hard to beat

Every dollar you owe in credit card balances, personal and car loans and mortgages is a dollar your are not investing.

If you are paying 18.00% in loan interest that is not tax deductible, you will have to earn 30.00% from a fully taxable investment such as a interest just to match the return from paying down the loan given your marginal tax rate of 40.00%.

Pay off non-deductible debt as soon as possible to free your money up to work for you, not your creditors.



The blessing of the LORD makes one rich, and He adds no sorrow with it. Prov. 10:22

LONG-TERM LIABILITIES

While large corporations often finance their growth through numerous, complicated types of long-term debt, the average household's version typically consists of one major item - a mortgage. Thus, in this section of your balance sheet, you should list the total amount of all mortgages or home equity loans on all properties in your possession. Do you know how much you owe on your house?

In the case of the Samples, they owe $455,000 on their house - they took a 2nd mortgage to finance their 2nd honey moon trip to Europe & all the other stuff they 'had' to buy. Therefore, they now have very little equity left in their home.

SAMPLE FAMILY		YOU
Mortgage (1st & 2nd)	**$ 455,000.00**	

THE BALANCE SHEET (The Sample Family @ Dec 31 20XX)			
ASSETS		**LIABILITIES**	
Short Term Assests	$	**Short-Term Liabilities**	$
Cash	$ 500.00	Credit Crad & Instalment Debt	$ 203,390.00
Bank - Checking	$ 2,500.00		
Bank - Savings / CD	$ -	**Long Term Liabilities**	
Securities	$ 7,000.00		
		Mortages	$ 455,000.00
Total Short Term Assets (A)	$ 10,000.00		
		TOTAL LIABILITIES	**$ 658,390.00**
Long Term (Non-Current) Assets			
House	$ 550,000.00	**NET WORTH**	
Other	$ 42,000.00		
RRSP (*)	$ 5,200.00	Total Assets (A)	$ 607,200.00
		Total Liabilities (B)	$ 658,390.00
Total Long Term Assets (B)	$ 597,200.00		
		Net Worth (A - B)	**-$ 51,190.00**
TOTAL ASSETS (A + B)	**$ 607,200.00**		

Difference between Assets & Liabilities

What does this difference mean? It means that the Sample family has a **negative** net worth of $51,190.

You may have come across a couple like this in your life. On the exterior, they appear to be thriving, but there's no gold behind the glitter. If they continue at this pace and in this direction, bankruptcy may await them! Now,

the fact that they **owe** more than they **own** isn't good, but it isn't hopeless either. If you find yourself in a similar boat, don't panic. Let's look at *your* net worth or balance sheet now, and then think a few of these assumptions through.

Do you have a positive or negative net worth? If your statement of net worth is positive – great job! Feel free to skip ahead if you wish. What if you have a negative net worth? You need to start building up the asset side as soon as possible.

Consider transferring credit card debt to lower interest cards. You may need to make an appointment with a credit counselor that specializes in debt solutions to fit your lifestyle. If things are really bad, the best solution may be to declare bankruptcy and start over.

Let's take a closer look at the Sample's debt

Examine the credit card and installment debt the Samples are trying to pay off. They admit to being barely able to pay the monthly minimums on all their bills. If you take the total of their short-term debt and assume that the average interest rate is 18 percent for credit cards and 8 percent for other debt, they'll have to pay approximately $18,121 per year in interest charges just to stay even. All those payments without paying down any part of the underlying debt!

SHORT TERM LIABILITIES		
Credit Card Debt		**$ 18,500**
Instalment Debt		**$ 184,890**
TOTAL SHORT-TERM DEBT		**$ 203,390**
PAYMENTS:		
$ 18,500 x 18% =	**$ 3,330**	
$184,890 x 8% =	**$ 14,791**	
PAYMENTS =	**$ 18,121**	

Paying $ 18,000 in interest, given the average family income, without reducing any of the interest is not a sustainable lifestyle.

$ 18,000 invested at 30% p.a. = $ 23,400! OR $ 2,000 per month in cash flow!

Are you in the danger zone?

Pay Down the Highest Rated Debt First

If a family has some equity in their house, we suggest paying down their short-term debt high interest rate debt by accessing the equity, if any, that has built up in their home through a renegotiation of their first mortgage, taking out a second mortgage, or taking out a **H**ome **E**quity **L**ine **O**f **C**redit (HELOC). The two advantages are:

1. The interest rate is usually much lower than credit card interest, and often lower than other installment debt
2. The interest payments may be tax deductible

The Samples have already taken out a second mortgage and spent the money. They still have some equity left in their home based on today's market value, so a renegotiation of the first or second mortgage may be possible.

However, what is really needed is a change in their spending habits. They need discipline to acquire better money management skills.

By selling one car or other luxury goods, the Samples could rid themselves of some debt, thereby reducing monthly payments and freeing up cash flow for investment purposes.

Other Income

Mr. Sample has learned that he will receive a sizeable bonus from his employer this year. The dilemma for him is what to do with this extra money:

- Open an RRSP account and begin investing for the long term?
- Pay down existing long-term liabilities, like the remaining installment debt?
- Go to Vegas for a third honeymoon?
- Invest in real estate, since it holds or appreciates in value?
- A little bit of all of the above?

What do you think he should do with the bonus? Mathematics determines that the single best decision in this case is to *pay the highest-interest short-term liabilities, such as Credit cards and installment debt.* The short-term debt carries the highest-interest rates, and in this case is eating hundreds of dollars each year. Pay down the $18,500 credit card debt, and then when the next windfall comes, weigh the consequences of paying down the installment debt (dental loans, car payments, and so forth) against investing the money in a retirement plan.

INCOME STATEMENT

Income Statement - looks at your average monthly income and expenses.

Unlike a balance sheet, which lists your assets and liabilities at one specific point in time (e.g. Dec 31 20XX), an income statement shows the flow of your money. It answers the question, where does my money come from and where does it go? (Changes in your income statement will eventually show up on your balance sheet.)

How can an Income Statement help?

1. Warning - first indicator that something does not add up!
2. Revealing - where you can reduce spending and free up money for investment.

If money talks, BUT what does it say? Usually GOODBYE!

Keep it Simple

To start out, we suggest you select the most recent month for analysis. Reach for checkbook stubs, credit card and brokerage statements, and ATM receipts. There's a good chance that a few ATM slips have disappeared, and that you might have trouble locating a banking statement or two. If this is the case, plan to make your month in review an upcoming month. Disregard all extraordinary, one-time costs or gains (e.g. a major purchase or unexpected bonus cheque). Unusual benefits or costs only serve to skew what really happens week in and week out with your money. To evaluate your regular, ongoing income, just set them aside.

Information Required:

To calculate your cash flow, you will need to gather together typical information. Start putting check marks in. If you've kept all records from a previous month, excellent!

Check the list:

- ☐ All canceled checks and bank statements for the month
- ☐ ATM deposit and withdrawal slips
- ☐ Paycheck stubs
- ☐ Stubs for any other income that you received during the month
- ☐ Brokerage statements, if you have a brokerage account(s)
- ☐ Credit card statements for the month
- ☐ Receipts for alt purchases-groceries, movie tickets, bowling, books, magazines,
- ☐ Bills from utilities
- ☐ Monthly health insurance bill*
- ☐ Monthly life insurance bill*
- ☐ Monthly car payment*
- ☐ Monthly mortgage payment*
- ☐ Monthly rent

If you pay for some of these on a quarterly or yearly basis, you'll need to calculate how much you would pay monthly. Mortgage costs of $12,000 per year are $1,000 per month.

Income Sources

Write down in one place all your sources of income. If you work and are paid a salary, just collect your pay stubs. If you are married, get your spouse's stubs as well! On your pay stub, the first line will be your total wages, followed by a list of deductions. Take the net amount after all deductions and put that amount at the top of the paper pad. For those of you who are self-employed, or have additional sources of income, enter the average amount you earn in a month, after accounting for your tax liabilities.

We are determining two things:

1. How much can you safely invest?
2. The functions of basic accounting (like corporate balance sheets/ Profit & Loss statements)

Note: If you have money deducted from your paycheck for an RRSP plan, automatic share purchase, or other investment plan, do not add that money back into your net income amount. Treat it as a debt to yourself for future benefits. Since this money is out of sight, it should be out of mind.

Let's construct an example income statement, starting with cash inflow or income:

- He is netting $ 1,300 per paycheck and is paid twice a month ($ 2,600.00).
- He also receives $ 125.00 monthly from his brother for sale of a motor home. We just call it **other** income.

PERSONAL INCOME / EXPENDITURE STATEMENT		
REVENUES	**MONTHLY**	**ANNUAL**
Salary	$ 2,600.00	$ 31,200.00
Other	$ 125.00	$ 1,500.00
TOTAL REVENUES (A)	**$ 2,725.00**	**$ 32,700.00**
Rent	$ 550.00	$ 6,600.00
Utilities	$ 165.00	$ 1,980.00
Food	$ 686.00	$ 8,232.00
Groceries	$ -	$ -
Car Insurance	$ 200.00	$ 2,400.00
Health Insurance	$ 50.00	$ 600.00
Home Insurance	$ 10.00	$ 120.00
Transportation	$ 230.00	$ 2,760.00
Clothes	$ 200.00	$ 2,400.00
Other Stuff	$ 400.00	$ 4,800.00
Tuition Payment	$ 235.00	$ 2,820.00
Credit Cards	$ 50.00	$ 600.00
TOTAL EXPENSES (B)	**$ 2,776.00**	**$ 33,312.00**
NET INCOME (LOSS) A -B	**-$ 51.00**	**-$ 612.00**

Annual Loss = $ 612.00

Solution Options:

1. Increase income OR
2. Reduce Spending

Analysis: Reduce Spending

Rent	$ 550.00
Utilities	$ 165.00
Food	$ 686.00
Groceries	$ -
Car Insurance	$ 200.00
Health Insurance	$ 50.00
Home Insurance	$ 10.00
Transportation	$ 230.00
Clothes	$ 200.00
Other Stuff	$ 400.00
Tuition Payment	$ 235.00
Credit Cards	$ 50.00
TOTAL EXPENSES (B)	**$ 2,776.00**

A review of expenses in our example reveals the following:

- **Rent** - He is paying $ 550 a month in rent to live in a one room apartment.
- **Utilities** – He is spending $95 per month on basic utilities and $70 per month on the telephone bill. He doesn't subscribe to cable and is given a cell phone by UPS for business purposes. In total he's spending $165 per month for utilities.
- **Food** – He likes to eat but hates to cook. He spent $686 on food, mainly in take out form.
- **Transportation** - He has about two more years before his car is paid off in full. He's paying $180 per month in payments, on top of which he spends about $50 each month on gas. He is consistently spending about $230 a month between gas, regular maintenance, and car loan payments.
- **Clothing** – He spends anywhere from $150 to $200 a month on clothes.
- **Other Stuff** - In his case, this includes compact discs, computer software, and baseball tickets occasionally. These expenses average around $300 a month.
- **Installment Debt** – Tuition loan that costs him $235 per month.

Where can he REDUCE to turn the loss into a gain?

Analysis: Reduce Spending

TURNING A LOSS TO A GAIN		
REVENUES	EXISTING MONTHLY	ADJUSTED MONTHLY
Salary	$ 2,600.00	$ 2,600.00
Other	$ 125.00	$ 125.00
TOTAL REVENUES (A)	$ 2,725.00	$ 2,725.00
Rent	$ 550.00	$ 550.00
Utilities	$ 165.00	$ 165.00
Food	$ 686.00	
Groceries	$ -	$ 300.00
Car Insurance	$ 200.00	$ 200.00
Health Insurance	$ 50.00	$ 50.00
Home Insurance	$ 10.00	$ 10.00
Transportation	$ 230.00	$ 230.00
Clothes	$ 200.00	$ 50.00
Other Stuff	$ 400.00	$ 150.00
Tuition Payment	$ 235.00	$ 235.00
Credit Cards	$ 50.00	$ 50.00
TOTAL EXPENSES (B)	$ 2,776.00	$ 1,990.00
NET INCOME (LOSS) A -B	-$ 51.00	$ 735.00

Monthly Saving of $ 735 = $ 8,820 per Year

- θ Cook at home;
- θ Dress normally;
- θ Cut out the OTHER stuff

What was the point of this exercise?

- ☐ To have the financial stamina to invest – understanding that paying 25% in Debt Interest while attempting to generate 25% in investment return is pointless!
- ☐ You will learn Accounting Terminology & Concepts - to read/understand Corporate Financial Statements. You will know how to perform **basic** financial analysis.
- ☐ You MAY discover some things about yourself on both personal and financial levels.
- ☐ You may UNCOVER hidden assets that can be profitably deployed through trading.

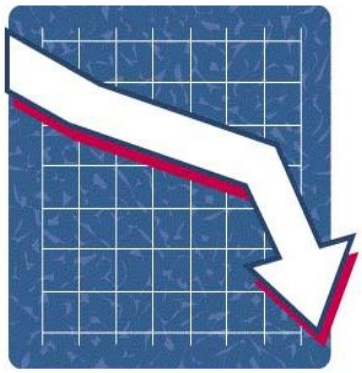
Validating the Difference:

Validating the Difference between your current financial position and where you want to be requires that you have a plan to get there. A personal financial road map will help you live your life with purpose. A financial plan will take you from where you are now to your financial goals. Are you on track to achieve your goals and fulfill your values?

10 REASONS FOR *investment failure*

There is no magic formula to growing wealth. If you learn from the most common investment mistakes, you too could be on the road to financial independence.

1. Failing to have a financial plan
2. Procrastinating
3. Failing to diversify
4. Ignoring the impact of taxes
5. Ignoring the impact of inflation
6. Holding underperforming assets
7. Not paying yourself first
8. Failing to educate yourself
9. Not investigating before you invest
10. Taking unnecessary risks



The following diagram graphically displays the Rule of 72. Dividing 72 by the rate of growth shows how long it takes money to double. If you obtain a 10% compounded annual rate of return it will require 7.2 years to double your money. A 1% rate of return every two weeks compounded doubles the principal in just 2.4 years. A consistent 1% rate of return will help you reach your financial goal sooner than you might imagine.

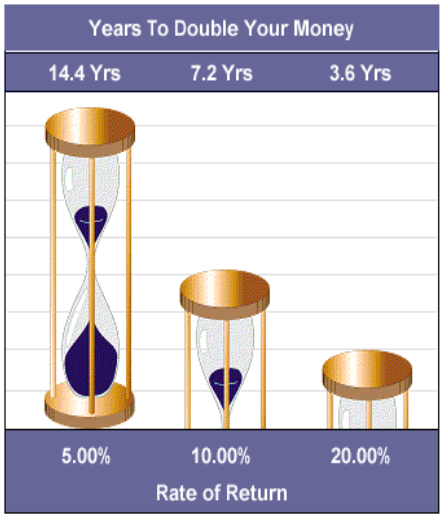
THE RULE OF 72 - *doubling your money*

How long will it take to double your money?

To find out, just divide 72 by the rate of return of your investment.

For example, if your investment earns a rate of return of 10.00% per year, you will double your money in 7.2 years.

$$\frac{72}{10.00\%} = 7.2 \text{ Yrs}$$



Imagine what the power of compounding can do for your wealth. The growth of capital becomes exponential – virtually explodes in later years. In the example below, you can see that from year 20 to year 30 there is an amazing increase. At the end of year 30 the balance would be $26,199,956. Do you know what just a 1% return every two weeks comes to in year 31? $7,859,987! What could you do with that kind of increase?

Your financial attitude

Lack of money and over spending results in financial bondage, if you do not have positive cash flow (income exceeds expenses), the multiplication of assets and net worth (assets less liabilities) **cannot** increase.

It requires self-discipline to:

- Control spending
- Keep needs, wants, and desires in their proper relationships.

Needs: food, clothing, mortgage, etc.
Wants: toys, luxurious vacations, material possessions, etc.
Desires: to be wealthy without having a 'get-rich-quick' mindset

Obstacles:

- Social pressures to own more "things."
- "More is better" regardless of cost attitude
- Use of credit to delay 'necessary' decisions
- No surplus available for 'unexpected' events.
- Level of spending increases with increases in income levels.

The Danger Point: Income = Outgoing

BREAKING EVEN is NOT a *LIVING POINT* but a *DECISION-POINT*.

When pressure (e.g. unexpected expense) comes, the credit cards come out & results in unpaid debt. Some typical treatments are: bill consolidation loans, additional credit, 2nd mortgage, or a job for the spouse. All these options may provide 'temporary' relief.

Unfortunately, since only the symptom has been treated, **the problem still exits.**

We'll begin by examining your financial profile. Although this is seen as a tedious and daunting task by most, it is a very important and critical exercise in your overall success.

STEP 3: Cash Flow Projections (Income/Expenses)

Definition of Cash Flow. Cash flow is the money that comes in and goes out of a company. It is the generation of income and the payment of expenses. Cash inflows result from either the generation of revenue through the selling of goods and services, money borrowed, or money earned through investments.

A **PROJECTED CASH FLOW** statement will show projected Income & Expenses for targeting specific goals and desires

CASHFLOW (INCOME & EXPENSES)	YEAR 1				YEAR 1	YEAR 2	YEAR 3
	1Q	2Q	3Q	4Q	Annual	Annual	Annual
* 3 months = 1Q	Actual (*)	Projected	Projected	Projected	TOTAL	Projected	Projected
INCOME							
Salary/Wages							
Investment Income							
Rental Income							
Interest Income							
Inflows (A)							
EXPENSES							
Mortgages							
Utilities							
Car Payments							
Groceries							
Gas - Vehicles							
College Expenditure (Forecast if kids are headed for college)							
Cottage Expenses							
List all other (incl. anticipated expenses e.g. Vacation in YR3)							
Outflows (B)							
Net Cash Flows (A minus B)							

NOTE: 1Q must be ACTUAL income/expenses
Used as a basis for comparing PROJECTIOND

AIM:
Forecasting anticipated expenditures incl.

- Medical
- Vacations
- Living etc.

PURPOSE:
To create an INVESTMENT strategy to generate sufficient income to meet anticipated expenditures.

ALSO CALLED THE NEEDS ANALYSIS STATEMENT

A Needs Analysis Statement requires you to have a thorough understanding of your financial situation. What are your investments currently earning? And what is the cost of earning that return? Do you have a projected income & expenditure statement and a projected net worth statement based on historical records which aims at meeting future anticipated expenditure? Understanding future needs enables you to carefully plan and develop a trading/investment strategy.

STEP 4: Risk Management

Consistent winners define the risks in ADVANCE before entering a trade and consistent losers will not confront the reality that each trade has a probable outcome (i.e. it could become a loser!).

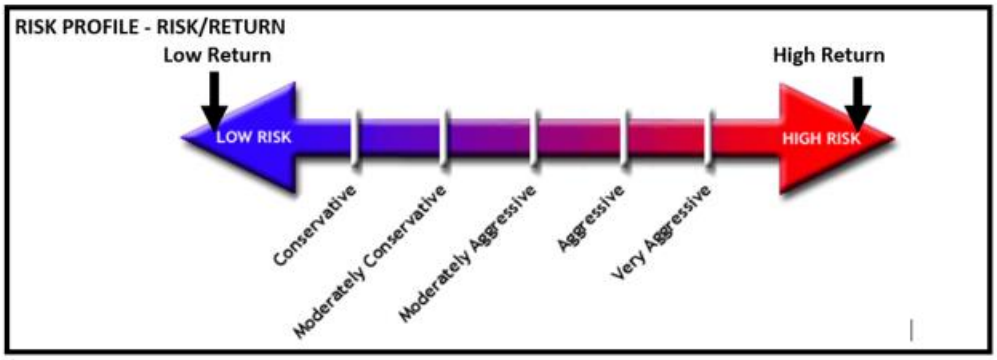
What is your Investor Risk Profile?

You know you have found the right risk level when your investments excite you **but** don't cause any sleepless nights. Worrying about your money will not increase your chances of success.

Most people base their investment strategies on the returns they WANT, ***BUT*** they have it backward. Instead, focus on managing risk and accept the returns that go along with your tolerance for it. It would be great if we could get plump returns with no risk at all. But to achieve returns beyond a minimal level, we have to invest in things that involve some possibility that we'll lose some money.

False Thinking: Low Risk, High Profit

There is no such thing as "LOW RISK/HIGH RETURN". Your portfolio composition is based on your ability to deal with associated risks.



The good news is, once you've identified just how you feel about risk, you're well on your way to choosing a portfolio that will maximize your returns according to that comfort level.

Head Space Re-Think!

People tend to base their investment strategies on

- ❑ ***the returns they want NOT***
- ❑ ***the risk level they can HANDLE!***

WE need to find **the RIGHT RISK level** where our investments excite us but does not cause sleepless nights:

How do we do that?

- ❑ **Risk Profile**
- ❑ **Risk Tolerance**

Your RISK PROFILE suggests the LEVEL OF RISK you could TOLERATE (naturally this not carved in stone)

See Notes

Captain Kangaroo

Captain Kirk

James Bond

Unconscious Self-Deception

Question: What type if investor are you?

Answer: Conservative

Usually, this is an unconscious self-deceptive answer – they 'SAY' conservative because they believe that a 'conservative' strategy means they will NOT lose money

WRONG MIND-SET!

There are many "GUN-SLINGERS" & many "JEKYLL & HYDE" personalities who claim to be conservative traders!

Which Apple will **YOU** pick?

Which Apple will your **SPOUSE** pick?

WHY?

Before marriage,
Opposites **ATTRACT!**
After marriage,
They **ATTACK!**

Risk Profile Questionnaire

What is your Investor Risk Profile?

*You know you have found the right risk level when your investments excite you **but** don't cause any sleepless nights. Worrying about your money will not increase your chances of success. In fact, worrying won't help anything at all.*

QUESTIONNAIRE:

Complete the following risk profile questionnaire to assist you in ***identifying your investment philosophy and attitude towards risk.*** The result of this questionnaire will help identify your risk personality; helping you to narrow the investment portfolios and allocations that may be appropriate for meeting your specific financial objectives within comfortable risk tolerances defined by your profile.

1. **TIME FRAME**

   How many years can you let your money grow ***BEFORE*** you'll need to tap into your nest egg? (This is important because a "fully-invested" investor must be able to withstand down cycles).

If the working time frame for Your Investment Portfolio is:	*Give yourself*
1 - 2 years	1 point
3 - 5 years	2 points
6 - 10 years	3 points
More than 10 years	4 points

2. **YEARS TO RETIREMENT**

   Where are you in relation to retirement? The further you are, the more risk you can take.

If the number of years between now and retirement is:	*Give yourself*
1 - 2 years	1 point
3 - 5 years	2 points
6 - 10 years	3 points
More than 10 years	4 points

3. **FINANCIAL CUSHION**

   Consider your total financial position and the cushion you have set aside for emergencies. This will help you determine how much risk you may prudently take in your investing.

If you have	*Give yourself*
Little savings set aside, capital preservation is priority	1 point
Reasonable savings set aside, moderate risk with moderate returns	2 points
Ample savings set aside (e.g. no mortgages etc), larger risks taken with maximum return potential	3 points

4. **NEED FOR INCOME**

How important is current income to you in the near term? Will your investment income be used for living expenses?

If current income is:	*Give yourself*
Critical	1 point
Needed to a large degree	2 points
Needed to a minor degree	3 points
Not important	4 points

5. **INVESTING ATTITUDE**

Your current attitude toward investing over the next decade will help dictate what type of strategy you could adopt and how much risk your investments entail.

If current attitude is:	*Give yourself*
Cannot afford any loss of capital regardless of potential return	1 point
If sufficient income from fixed income is available, stock market risk is not worth the stress	2 points
Moderate return is acceptable, so some market fluctuations are acceptable	3 points
Looking for higher returns through higher risk	4 points

6. **SPECIAL CIRCUMSTANCES**

Are there any circumstances you can envision (see needs analysis - college tuition, home purchase, etc.), outside the usual contributions and withdrawals, that might necessitate the immediate liquidations of a major portion of your portfolio?

If current attitude is:	*Give yourself*
Full liquidation possible	1 point
Major liquidation	2 points
Minor liquidation	3 points
No liquidation required	4 points

7. **PRIMARY OBJECTIVES**

Think about your personal investment goals:

Your primary objective is:	*Give yourself*
Capital Preservation - emphasis on maximizing principal stability; future growth of income and principal are of minor importance; short investment time horizon and low tolerance for big fluctuations in current income.	1 point
Current Income - emphasis on providing a high level of current income; future growth of income and principal are secondary objectives.	2 points
Balanced - approximately equal emphasis on current income and potential for future appreciation and income growth.	3 points
Long-term Growth - emphasis on future appreciation, not current income; year-to-year principal stability is not important.	4 points

8. **ESTIMATED PORTFOLIO RETURN**

Over the past 70+ years, the investment vehicles below returned approx the following average yearly returns:

- Stocks 11%
- Bonds 5.2%
- GIC 3.7%
- Inflation 3.7%

Knowing this, what would you consider to be a reasonable average annual return?

If it is:	***Give yourself***
Less than 5%	1 point
4 – 8%	2 points
9 – 12%	3 points
13% or more	4 points

9. **RISK MANAGEMENT:**

The table below indicates how much the Stock Market has fallen in any given year over the last several decades

Market Correction	**How often to expect this**
Minor Correction (5% or more)	About 5 times a year
Moderate Correction (10% or more)	About once a year
Severe Correction (15% or more)	About every 2 years
Bear Market (20% or more)	About every 3 years

Assume you have $100,000 invested and that sum represents your entire savings. Given the information in the table above, what is the maximum level of decline you can comfortably accept for your $ 100,000 investment?

If it is:	*Give yourself*
$ 95,000	1 point
$ 90,000	2 points
$ 85,000	3 points
$ 80,000	4 points

SCOREBOARD

Add up the total points for each question to arrive at a total score. Based on your total score, see the following chart to determine the investment risk classification that best meets your objectives.

	Points
1. Time Frame	
2. Years To Retirement	
3. Financial Cushion	
4. Need For Income	
5. Investing Attitude	
6. Special Circumstances	
7. Primary Objective	
8. Estimated Portfolio Return	
9. Risk Tolerance	
TOTAL SCORE	

WHAT DOES YOUR SCORE MEAN?

Score Total	Risk Level	Suggested Type of Investment Plan
9-13	Low	Needs of more conservative investors – emphasis on current income with principal growth as secondary objective
14-22	Moderate	Needs of investors that desire moderate capital growth
23-31	Moderate to High Risk	Needs of assertive growth investors willing to accept greater risk for higher returns
32-35	High Risk	Aggressive growth investors with a 3-5-year time horizon and some sensitivity to tax considerations. Willing to accept larger losses in pursuit of greater growth returns
> 35	Extreme Risk	**Gun-slingers!**

The scores reached by tabulating your answers is only one tool used by you in evaluating the suitability of various investment alternatives. The choice of which investment strategy you invest in may be influenced by other criteria e.g. spouse's opinions. You should review your investments with your family & Investment Coach on a regular basis.

RISK PROFILES ARE GUIDELINES ONLY!!!

Risk Temperament Assessment

Respond to the questions with the answer that most accurately reflects your point of view. ***Scoring:*** *Give yourself 10 points for each* ***a;*** *answer, 5 points for each* ***b;*** *and 0 points for each* ***c****.*

1. Which of the following best describes your current financial position?

   A) Very stable and expected to remain so for the foreseeable future.
   B) Currently stable but subject to change.
   C) Not very stable.

2. Your preferred choice of investment has:

   A) Significant risk with the opportunity to provide large returns.
   B) Some moderate risk with opportunities for moderate growth.
   C) Low risk and will provide limited growth potential.

3. You meet a stock broker at a party who gives you a stock tip. Do you?

   A) Immediately buy shares of that stock?
   B) Take time to investigate the business?
   C) Have another glass of punch?

4. The following choices show the potential fluctuation of a $100,000 investment. Which would you choose?

   A) Investment A $85,000 - $135,000
   B) Investment B $90,000 - $125,000
   C) Investment C $98,000 - $105,000

5. What temporary drop in the value of your investments are you prepared to accept?

   A) Over 10%?
   B) Between 5% - 10%?
   C) Up to 5%?

6. You are given $100,000 from a rich aunt for your birthday. Do you
   A) Drive to Las Vegas, believing it is your duty to go forth and multiply?
   B) Put the cash in a bank
   C) Put the cash in a box in your basement?

YOUR SCORE: _____

What does your score mean?

- ☐ If you scored over 40 points, you are *James Bond,* willing to take risks to accomplish your goals. Ahoy! You *might* make a whale of a killing in the stock market.
- ☐ If you scored 16-0, you are *Captain Kirk,* willing to take enterprising risks where no cash has gone before, but only after scrutinizing the pros and cons and calculating which move is the most prudent.
- ☐ And if you scored 0-15, you are *Captain Kangaroo*, preferring to tend the carrots in the garden while hobnobbing with Mr. Green jeans. Protecting what you have is your utmost priority.

STEP 5: The VISION Statement

VISION

".....My people perish for lack of knowledge;" Hosea 4:6

"....write the vision and make it plain....." Habakkuk 2:2

Creating an 'image of the future that you seek to create.'

The establishing of goals/objectives and the crafting of a road map to meet those goals / objectives within an established time frame.

From an Investing/Trading perspective, the vision statement is a description of what you ideally want to accomplish within a given TIME HORIZON.

CREATING THE VISION

Goals must be S.M.A.R.T.

S	Specific
M	Measurable
A	Achievable
R	Realistic
T	Time Bound

Turning Dreams Into Goals

STEP 1: EVALUATE

What's your (family's) current position?

A. The RISKS within the portfolio: Does it meet your RISK PROFILE?

B. Does the RETURN

i. Justify the RISKS taken?

ii. Meet your OBJECTIVES (GOALS)?

STEP 2: NEEDS ANALYSIS

What are your (family's) objectives & goals?

- What are your monthly (or yearly) living expenses?
- What are the KNOWN / ANTICIPATED future expenses?
- What are the RETIREMENT plans?

STEP 4: MONEY MANAGEMENT CASH FLOW PROJECTIONS

1. Existing INFLOWS:
   - Earned Income
   - Investment Income
2. Existing OUTFLOWS – Current expenditures
3. Future OUTFLOWS – Anticipated expenditures

STEP 5: RE-FRAME & RE-BALANCE THE PORTFOLIO Re-structure your portfolio to meet:

1. Your RISK tolerance
2. Your CASH FLOW Objectives

STEP 6: MONITOR & RE-EVALUATE ANNUALLY

Annual Family Financial picnic – Go Back to Step 1!

Many of us never ask ourselves what we want to accomplish in life. It seems we're far too busy keeping up with everyday demands such as paying bills and taking care of the kids.

But our dreams motivate us. Without dreams, we have nothing to work toward. Everyone should dream—and dream big. Once we know our dreams, we can start planning. Before too long, our dreams become goals—reachable targets that can come true.

What dreams do you have? What goals do you want to accomplish?

Take a few minutes and think about your dreams—for today, tomorrow, and into the future.
Many dreams and goals don't require much money. For example, one of your goals might be to take a day off to visit a friend who lives several miles away. Or perhaps you dream about spending more time with your family. Maybe you want to take them for a picnic in the park instead of eating at home. These types of goals may not cost much money, but they are very worthwhile.

Many other dreams do require money. Perhaps you dream about the following:

- owning a dependable car
- renting or buying a home in a safe neighbourhood with good schools
- paying off debt
- starting your own business
- getting more education—whether that means earning a GED, learning job skills or a trade, or going to college

How can you make your dreams come true? A lot of determination helps, but so does believing in yourself and knowing that you deserve the life you dream about.

If you believe in yourself, keep focused on your goals, and manage your money along the way, you'll be headed down the path toward reaching your goals. It's just a matter of allowing yourself to dream—and then getting started in making those dreams a reality.

NEW THINKING

Through the years, many of us have developed negative and confusing ideas about money. We may have thought that it was the answer to all our problems. Or, we may have blamed money for ruined relationships and other chaos in our lives. However, money is neither good nor bad. It's merely a tool for helping us live the life we want and deserve. Since money is a tool, it may help to think of it as a hammer. If a hammer is used correctly, it can help build a fine home or solid furniture. If it's used incorrectly, it can leave you with a sore thumb.

Your money also can be used as a tool to help build something wonderful—a stable, well-balanced life, with your dreams coming true. To help you reach your goals more quickly, you may need to think about money differently and treat it in a new way. Here are some new ways to think about money.

My new agreements with money:

- I will use my money, so my family and I can live in a decent place in a safe neighborhood.
- I will use my money to promote the physical and spiritual health of my family and myself.
- I will use my money to help further the educational and personal growth of my family and myself.
- I will use my money to provide for a secure future.
- I will use my money to help other deserving people in need.

If you follow these agreements as closely as possible, your money can become a very powerful tool to help you build the better future you deserve.

WHAT ARE YOUR GOALS?

Take a few minutes and close your eyes. Let your mind wander and think about what you want out of life. If you have a family, think about what you want for them. Remember—you can dream big!

When you open your eyes, answer these three questions:

1. What is one thing you want or hope to achieve within the next three months? That's a *short-term goal*.
2. What do you want or hope to achieve within the next year? This is a *medium-term goal*.
3. What do you want or hope to achieve within the next five years? This is a *long-term goal*.

Here are some examples of goals.

Short-Term Goals

- pay bills on time
- buy school clothes for the kids
- start saving money to buy a car

Medium-Term Goals

- pay off some credit card debt
- buy a reliable car
- start saving money for an emergency fund

Long-Term Goals

- pay off all debt
- get additional education or training
- buy a home
- start a business

WORKSHEET: ***What Are My Goals?***

Short-term goals: **What are your hopes and dreams, for you or your family, for three months from now?**

Medium-term goals: **What are your hopes and dreams, for you or your family, for a year from now?**

Long-term goals: **What are your hopes and dreams, for you or your family, for five years from now?**

My Goals Action Plan**: These are the things I will do to meet the goals I have set:**

1

2

3

4

To achieve goals, it helps if they are realistic. One way is to create SMART goals. This means our goals are:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**esults oriented
- **T**rack able

When we think about our goals, it's easy to be vague. In some ways, being vague lets us off the hook. It can keep us from really committing to our goals—and achieving them.

For example, you might say, "I need to buy a new winter coat for next year." That's a good goal, but it's too vague. You haven't included a plan for how you will achieve your goal of buying a new coat.

Here's how to turn it into a SMART goal.

First, make a good estimate of how much the coat will cost. Let's say $100. If you need the new coat in seven months, you'll need to save about $14.30 each month to pay for it (divide $100 by seven months). Now, turn this information into a sentence, such as "I will save $14 each month for the next seven months to buy a new winter coat for $100."

That's a SMART goal. Use this idea with all your goals. It will help you see the steps you need to take to reach your goals.

WORK SHEET: Creating SMART Goals

Review the dreams and goals you have developed for yourself and your family. Now, rewrite them as SMART goals—those that are:

Specific

Measurable

Achievable

Results oriented

Track able

Example:

Let's say you want to pay off a credit card. That's a good goal, but it's not a SMART goal.

Rewriting it into a SMART goal might look like this:

> *"In one year, I want to save $500 to go toward paying off the credit card. I will save $42 every month, or $10.50 every week toward my goal."*

Now, that's a SMART goal! Remember, goal setting is one of the skills you will use over and over. It is a skill for life.

SMART Goals Worksheet

Goals	Cost or amount	Number of months to save	Monthly savings	Weekly savings

Reaching My Goals

Use this goal-setting worksheet for the goal you are working on now. Use it again when you've reached that goal and are ready to move on to your next goal.

Time Frame	***Achievement Date***	***Cost***	***Weekly Savings***
How many months or weeks do I have to achieve my goal	When will I reach my goal	What is the total amount I need to save?	This is the total amount I need to save, divided by the number of weeks I have to meet my goal.

"Living Within Your Means."

You've probably heard that phrase. ***But what does it really mean?***

Simply put, if you're living within your means, you can pay for the things you need without getting trapped in more debt than you can handle.

However, many of us believe that the only way to have nice things is to go into debt to get them. While that may be true for some large purchases such as a house or car, it doesn't have to apply to the other things we need in life.

For example, when you buy a house, you take out a mortgage, and you may be in debt for as long as 30 years. That's a long time, but this type of debt comes with benefits. The interest you pay on the loan may be deducted from your taxable income, and the equity—or money you have in the home—may be used for future loans.

However, buying food, clothes, toys, furniture, and other items on credit is different. By doing this, you may be going into debt to buy nonessential things. Plus, the interest charged is not tax-deductible, so by the time you've paid for the item and all the interest, the cost is much higher than the original price.

Simply put, you're robbing yourself—and your future. Instead of funding your dreams and the life you deserve to live, your hard-earned money fills the lender's pockets. Wouldn't it be better if the money you pay in interest could go into a savings account to help you reach your goals? Paying for everyday items by going into debt limits your choices because you're constantly caught paying for yesterday instead of moving toward tomorrow.

It can be challenging at first but try to live within your means. ***Even better, try to live below your means.***

Managing money may seem like a distant dream. It's something we want to do someday... when we have more money—and more time. But we all need to manage our money, so we can reach the goals and dreams we've set for ourselves.

While the idea of money management may seem difficult, it's really not. It's simply one more skill to be learned, just like we learned to write, read, or perhaps drive a car. Believe it or not, no one is born with the skills to be a good money manager, but everyone can learn them.

We often live day to day, allowing the demands of the present to swallow up our money and time. We watch the money—usually not enough—come in, and we watch it go out. We often feel we don't have any control over it, so why should we worry about trying to manage it?

Because managing your money can help reduce the stress in your life. It can help give you a plan to take care of unexpected events and expenses.

Most importantly, managing your money can help you meet the goals you've set and create the life you deserve.

DEBT:

Credit card bills; Car payments; Bank loans; Rent or mortgage payments. At times, it may feel like most of our money goes toward paying off debts. But, while it may seem like debt is just part of being an adult, it doesn't have to be that way.

By managing our money, living within our means, and saving for purchases rather than putting them on credit, we not only can pay off some debt, but we won't be relying so heavily on borrowing.

Keep in mind, though, that some forms of debt, such as a home mortgage, are better than others. Not only do most homes increase in value over time, the interest paid on a home loan may be tax deductible—saving you money on your taxes. Another type of "better" debt can be a student loan. In general, workers with more education usually earn higher wages, so a student loan can have a long-term financial payoff.

The type of debt you want to avoid is *consumer debt*—credit cards, auto loans, and department store cards. Items purchased with this type of debt don't increase in value, and the interest rates you pay can be quite high. Plus, there's no tax benefit for interest paid on consumer loans.

There may be times when consumer debt is unavoidable—for example, few people have enough cash to buy a car without a loan. But falling too deeply into consumer debt is one of the biggest mistakes people can make.

Many people carry large balances on several credit and department store cards while they are also paying off large auto loans. These expensive, multiple debts drain their financial resources and jeopardize their financial future.

SO, HOW DO YOU AVOID FALLING INTO THE CONSUMER DEBT TRAP? Here are some tips to help you find out.

What Is My Credit Score and What does it Mean?

With all the information on your credit report, you may wonder how a creditor can make a fair decision about your credit. One way they do this is by using a computer model to analyze your credit and give you a "credit score."

A credit score is used to predict how likely it is that a person will pay back a loan. There are many computer models that can calculate your credit score, but generally, the information in your credit report is assigned points.

For example, making payments on time every month is positive for the final score, while charging a card up to the maximum amount is negative for the score. The computer adds up the positive and negative points, and the resulting number is the credit score.
A good credit score varies depending on the creditor and model used. One model ranges scores from 300 to 900, and the higher the number, the better. Creditors also decide what score range it considers to be a "good risk," meaning that the person is likely to pay back the loan.

Because all creditors are different, it's best to check with the individual creditor to explain what your score means in relation to the final credit decision.

Children are one of life's gifts.

They're treasures beyond compare, and we can't imagine life without them.

Part of being a good parent is providing financially for your children. We probably don't have to tell you that raising kids is expensive! From new shoes to toys and from health care to day care, the costs of raising a child can sometimes seem overwhelming.

But they don't have to be. There are many ways to trim these costs. The first step is getting a handle on your spending, which is covered below.

Read on for additional tips on cutting costs while meeting your children's needs and finding quality child care.

SAVING MONEY WITH A SPENDING PLAN:

Most of us know that it's a good idea to have a safety cushion of money tucked away, but making that happen can be difficult. You may not feel you have a lot of choice about what to do with your money. After all, you probably face a monthly rent or mortgage payment, buy groceries regularly, and perhaps pay for child care. It can be difficult to make the money stretch to put something away for the future while paying these everyday expenses. That's why a spending plan is a good idea. A spending plan provides a financial road map. It helps your dollars stay on track, so you can reach your goals. And it prevents you from taking unnecessary and expensive detours. Many people say the best way to save money is to create a budget, but for many of us, the word "budget" is a negative. Budgets seem limiting, they don't allow for any fun, and they seem hard to set up—and keep track of.

But a budget—also known as a spending plan—can actually be freeing and help us meet our goals. With a spending plan, you'll be able to track the money coming in, where the money goes, and plug any "spending leaks" you find. You'll also be able to set up some savings goals that you can reach.

Before long, your spending plan will help you save money regularly. That money will help you when unexpected emergencies come up, and it will help you reach the goals you've set for yourself and your family.

Home Work

You are ALL adults, so we expect that you will complete the various exercises that has been suggested.

We **DO NOT** want to see you completed home work – there is no RIGHT or WRONG answer. What is required is HONESTY i.e. you completed the process with honesty & integrity – you did not re-write to make yourself look good -that is SELF-DECEPTION!

HOWEVER, we **WANT** to see the following:

Summary of your EXISTING PORTFOLIO in the following format:

EXAMPLE					
Date of Statement	Day/Month/Year				
	Cash	Equity	Buy Price	Other	Total
Account: RRSP		Current	Cost		
	$ 25,000.00				
XYR Mutual Fund		$ 50,000.00	$ 65,000.00		
CoCo Bean Stock		$ 25,000.00	$ 13,500.00		
POT ETF		$ 25,000.00	$ 125,000.00		
ABX		$ 50,000.00	$ 65,000.00		
		$ 150,000.00	$ 268,500.00		
Bonds (2%)				$ 25,000.00	
GIC (12 month)				$ 15,000.00	
TOTAL	$ 25,000.00	$ 150,000.00	$ 268,500.00	$ 40,000.00	$ 215,000.00
Unrealised Loss		*$ 118,500.00*			
	Cash	Equity	Buy Price	Other	Total
Account: TFSA		Current	Cost		
	$ 35,000.00				
TOTAL	$ 35,000.00				$ 35,000.00
SUMMARY					
Total Investments	Current				$ 250,000.00
	Cost				$ 368,500.00
	Net				-$ 118,500.00

Please submit above to Jeff via admin@train2invest.com

END

HELPFUL RESOURCES:

BASIC WEB PAGE(S) FOR NEWS:

1. www.globeinvestor.com
2. www.bloomberg.com
3. www.train2invest.com > TOOLS > Latest market news
4. www.cnn.com and/or www.money.cnn.com
5. www.reuters.com
6. www.marketwatch.com
7. www.cnbc.com
8. www.rtt.news

*NB: Please spend some time reviewing ALL of the above. However, **No. 1 & 2 is a MUST**. Pick a couple of others that you are comfortable navigating through.*

ECONOMIC CALENDARS

- http://www.bloomberg.com/markets/ecalendar/index.html [N. AMERICA]
- http://biz.yahoo.com/c/e.html [N. AMERICA]
- http://www.fxstreet.com/fundamental/economic-calendar/ [GLOBAL]
- http://www.baystreet.ca/articles/econ_calendar.cfm [N. AMERICA]
- http://www.briefing.com/Investor/Public/Calendars/EconomicCalendar.htm

STOCK MARKET TERMINOLOGY:

- http://www.tmxmoney.com/en/research/glossary.html
- www.investopedia.com

WEB PAGES FOR DATA

1. www.ino.com
2. www.quote.com
3. www.bigcharts.com
4. www.baystreet.ca > Sector Watch
5. www.worldbank.org
6. www.imf.org
7. www.ifc.org
8. http://www.bls.gov/bls/newsrels.htm
9. www.wtrg.com
10. www.kitco.com

ONLINE BROKER RANKINGS:

http://www.theglobeandmail.com/report-on-business/online-broker-rankings/

Action Direct (Royal Bank)
Credential Direct (CDN Credit Unions)
Interactive Brokers Canada
Investor line (Bank of Montreal)
Investor's Edge (CIBC)
National Bank Discount Brokerage (National Bank)
Qtrade Investor
Scotia McLeod Direct Investing (Bank of NS)
TD Waterhouse (Toronto Dominion)
Trade Freedom

The above names and links are provided as a courtesy and are not specific recommendations. Please check out the various sites and choose the one that best meets your personal trading needs. While some of the American fees may look attractive, traders and investors are expected to open an account in their country of residence.

