Financial Independence Checklist

The Cornerstone of
Financial Independence
Is not the Privilege of the Rich…

It's a Plan of the Wise ®

Fiscal Agents Savings and Investments

The following pages summarize the themes expressed in

The 10 Principles of being Rich:

Life stories you should have been told.

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- ***Time:*** *Understanding if time is a friend of foe*
- ***Frugality:*** *A penny saved is a penny earned*
- ***Setting Goals:*** *How will you know you've arrived?*
- ***Protection:*** *When asked if their largest asset is their home, many people mistakenly answered, Yes!*
- ***Financial Management:*** *Putting together the pieces of your financial puzzle*
- ***Estate Planning:*** *Will the government and lawyers own your estate or will your family?*

Introduction

Experience has shown there are six key principles to financial independence. Those who adhere to them are more likely to succeed. Those who don't jeopardize their chances at financial independence. Below are the six principles and a brief explanation on how you can apply them to your situation:

1) Time: *Understanding if time is a friend or foe*

Those of us who strive for financial independence often view that milestone in terms of time. For example, we may say "I plan to leave my job by the time I'm 60" or "I want to have my mortgage paid off by the time the children go to college".

It's important to know what you want and when, but the challenge is gaining a true appreciation of the time you have to achieve them – and you never have as much time as you think. The amount of time you need to become financially independent is driven by three simple factors:

a. your current net worth,

b. the net (investable) income you expect to generate, and

c. the net worth you need to become financially independent.

Remember, your final net worth must be enough to maintain the lifestyle of your choice and all future obligations or aspirations toward children, grandchildren, parents, etc.

If the resulting time required to achieve "c" is greater than you imagined, you must change "b" and/or "c", or your expectation of time.

Another often misjudged factor is the rate of return on investment and the associated risk. Phrases such as "If I assume I get a 15% return..." are common and rarely linked to time and risk. Making financial decisions without understating that relationship can have severe consequence on financial independence. The impact of a risky and misguided financial decision can be disastrous if you're unable to recoup the loss during the time you have left. If your time horizon is longer, you have a greater chance to recover from a misguided decision.

2) Frugality: *A penny saved is a penny earned*

It's easy to tell someone to "spend less" and "save more". We intuitively know it's the right thing to do. However, the urge to spend – often excessively - can overwhelm even those of us who are otherwise sincere at becoming financially independent.

The wealthy, those who have achieved financial independence, are continually conscious of the principle of frugality. Frugality doesn't refer to being "cheap". Rather, it refers to a very conscious understanding of the impact and opportunity cost of every dollar spent or saved. The wealthy buy on value, not price.

2) Time:

Understanding if time is a friend or foe

Where do I start?

You can start immediately by scrutinizing your next purchase. Remember the opportunity cost and impact on your future aspirations.

If you need some help, a Cornerstone Planning Specialist can analyze your current spending habits and identify savings opportunities to guide you back on the path to financial independence.

3) Setting Goals:

How will you know you've arrived?

Where do I start?

Start by writing down your long-term goals – how you see yourself living when **you're financially independent. Where do you live? Are you traveling often? Are you supporting others** financially? Etc.

Based on those goals, you can calculate how much money you must accumulate to declare your financial independence. Finally, you must consider the impact of time and what you are able to invest on a regular basis to determine if your goal is achievable.

We understand that planning and setting goals is one of the most difficult exercises to do on your own. A Cornerstone Planning Specialist can help you plan for the long term and guide you back on the path to financial independence.

There are 2 factors to consider every time you make a spending decision:

a. every dollar you spend is "after-tax" money. If your marginal income tax rate is 40%, you're actually spending $1.67 from your gross income. Now add the GST and PST.

b. every dollar you save today – assuming an annual 10% return – will be worth approximately $2 in 7 years, $4 in 14 years and $8 in 21 years!

Indeed, finding ways to save is a fruitful endeavor. By contrast, a recent study found 37% of Canadians are concerned they won't be able to afford the lifestyle they have now by 2017, saying they will have to cut back on some of the things they buy. Furthermore 79% believe "people spend too much and don't save for the future".

Shopping may be a recreational pastime, but worrying about not having enough in the future is like waiting for the roof to cave in - it certainly isn't worth the wait.

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3) Setting Goals*: How will you know you've arrived?*

According to the same study referenced above, Canadians define financially wealthy individuals as those with $2.26 million in total assets or more. Is that what you need to become financially independent? How do you know?

If you're like most people, planning and budgeting are somewhere near the bottom of your list of favourite things to do. That's understandable – it's a tedious exercise and it doesn't pay off right away. Sometimes, we simply don't want to face the realities that await us at the end.

Unfortunately, it's tough to make good financial decisions if you don't know how much you need or what the money is ultimately for.

Fortunately though, most of us do understand how to plan - we do it everyday. For example, we plan to have enough cash in the bank to cover the next mortgage payment, we plan for the next home renovation and we plan our next vacation - with enthusiasm!

In fact, we are quite proficient at short term planning. What we lack is the determination to plan for our long-term financial independence - the only known way to achieve it without winning the lottery!

How do we plan for the future? By infusing some long-term decision making into the same rational method we use to plan for the short term - every day. So in addition to ensuring we have $1000 to cover the next mortgage payment, we set aside $500 to be invested for the future – <u>and treat them with equal importance.</u>

How do we know how much to set aside for the future? By setting goals and understanding Principle #**1: Time.** Where can we find an extra $X per month to invest for the future? also Principle **#2: Frugality**.

Ultimately, the sincerity of one's aspirations for financial independence will determine the success of any planning exercise.

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4) Protection: ***When asked if their largest asset is their home, many people have mistakenly answered, Yes!***

Where do I start?

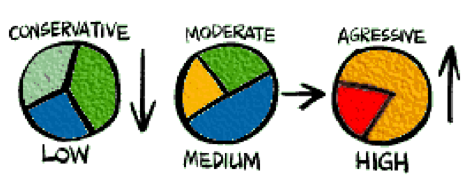
A good place to start is to speak to your partner about this issue and determine what level of protection you need from unforeseen events.

Next, compare the results of that conversation with your plans for financial independence.

Will your family be able to continue down the path to financial independence or will they be permanently derailed?

These are difficult decisions and seeking the advice of a professional is recommended.

A Cornerstone Planning Specialist can help you determine the level of protection you need from an unforeseen event to keep you and your family on the path to financial independence.



4) Protection: *When asked if their largest asset is their home, many people have mistakenly answered,*

Your biggest and most valuable asset is your capacity to earn an income. If this capacity is disrupted due to illness, an accident or premature death, what happens to the aspirations you have for your family and your plans for financial independence? Of course, we are referring to insurance.

It's understandable why people have difficulty paying for insurance – you must pay for something today that you may never see a benefit from.

However, once an unforeseen event occurs, the first question often asked by friends and family is "did they have insurance?".

Reviewing your future obligations and providing protection are key components of independence that are often overlooked.
Our primary concern is protecting or replacing income.

There are two types of insurance to consider:

life insurance: How much money is sufficient to provide for your loved ones if you die prematurely?

critical illness insurance: How much money is sufficient to provide for you and your loved ones if you are unable to earn an income? Who will pay for your special care services?

The key is building a layer of resilience and protection from unforeseen events. Otherwise, we (or our families) may be unable to find the path to financial independence.

5) Financial Management: *Putting together the pieces of your financial puzzle*

Gaining financial independence requires the careful management of all your assets. This includes the home you live in, your RRSP and pension contributions, your investment and savings accounts, even the old watercolor painting your uncle Henry left you in his Will.
The combination of all your assets is called your "Asset Mix".

Every asset has its own unique risk profile. Government bonds are less risky than corporate bonds, stocks have a different risk profile than real estate or that potentially valuable watercolour painting you inherited.

Where do I start?

This subject is by far the most challenging aspect of financial independence.

There is no shortage of financial information through mediums such as books, magazines, TV, radio and the internet.

As an investor, you should strive to understand how to manage your money.

However, even the most experienced self-directed investors face difficulty removing emotion from financial decision making.

Sometimes, it's easier to fall in love with an investment, and hope it behaves according to what's desired of it, than to get rid of it when it's clearly time.

This loss of objectivity quickly results in a poorly performing portfolio that's unsuitable for the investor's objectives or risk profile.

If you're a self-directed investor, or you'd just like a second opinion, a Cornerstone Planning Specialist can analyze your current asset mix and help you determine if you're on the path to financial independence.

In general, the greater the risk, the greater the potential reward.

The reason for this is simple: given any two investments with the same potential reward, a rational investor will always choose the one with less risk. Therefore to attract investors, an investment with higher risk must offer a higher reward.

If that's the case, why don't we sell all our assets and buy the most risky investments available? We could, but we would risk losing everything. The reason is "variance" in the outcome.

The more risky the asset, the more variance it will have. Over their lifetime, government bonds will vary very little in value. It's quite certain you'll receive your interest payments and when the bonds mature, it's quite certain you'll receive full face value. There is little "variance" in the value of government bonds – and because of this certainty, you will receive a smaller comparative return.

What about an investment in real estate? Such an investment is expected to bring a significantly higher return than government bonds, but with much less certainty and a much higher variance. With this asset, you could multiply your investment, or you could lose most or all of your capital. (Those who sold good assets to invest in companies such as Bre-X or Nortel Networks later understood this concept well).

How much can you afford to lose and how much time do you have to recover from a substantial loss (Principle #1)? Do you need assets that generate income or can you wait for your capital to appreciate? Can you afford to weather an economic downturn in the short-term by holding on to assets that could recover and appreciate in the long-term?

What about the evil twins of inflation and taxation? Are you wisely protecting your assets from both? Without proper planning, inflation and taxation will significantly erode your net worth.

Ultimately, financial management is about ensuring your assets, as a whole, reflect the risk profile you are comfortable with and are optimized to help you achieve your goal for financial independence. They, as a whole, must be managed and adjusted diligently as your risk profile changes with age.

Where do I start?

You should start by considering what state of affairs you would leave you heirs in if you died unexpectedly.

Would it be a smooth transition? Do you even have a will?

A Cornerstone Specialist can guide you through this process. In fact, a well planned estate is the natural conclusion of the Cornerstone process.

About Fiscal Agents and the Cornerstone System

Fiscal Agents Cornerstone Planning is, by design, individually tailored to get you on the right path.

The six principles form the foundation of our philosophy on financial management.

Our clients are intelligent individuals and partners who recognize the importance of experienced guidance and the value of a friendly reminder now and then to help them stay on the path to financial independence.

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6) Estate Planning: *Will the government and lawyer's own your estate or will your family?*

Estate planning is the orderly conclusion of a financially prosperous life. The primary objective of estate planning is to maximize the value of what you pass on to your loved ones while minimizing the government's share in taxes and the overall burden.

If you or your spouse died suddenly, the surviving spouse will be required to fulfill certain estate duties, including settlement of outstanding debts such as taxes.

Good estate planning will lessen the financial burden upon death and protect the core value of the accumulated assets.

For example, insurance coverage can be used for immediate cash flow needs or lump sum payments so that your heirs are protected in the event of early death or disability. You can address other issues with beneficiary designations or through Alter Ego/Joint Partner trusts.

You can create a spousal trust that allows the rollover and/or tax-deferred treatment of registered accounts. Trust accounts can be structured for other family members where income splitting or wealth preservation issues play a higher priority or when mentally or physically dependent children are concerned.

To further lessen the burden on those entrusted to follow your will, you should consider setting up power of attorney for care and/or property.

Getting back on the right path

Financial Independence does not happen by accident. Those with a wealth consciousness understand these principles Intuitively and adhere to them.

You can start by reviewing your own personal circumstances in comparison with the principles. Assess what you are doing right and what you need to change.

If you'd like some help, or a second opinion on your progress towards financial independence – contact us for a free assessment at (905) 844-7700 or check out our website at www.fiscalagents.com .

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www.fiscalagents.com/10principles

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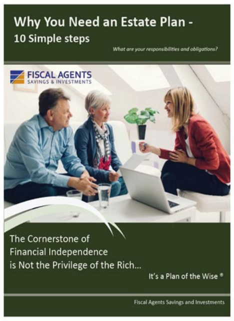
Estate Planning

The Prudent Canadian's Guide to Effective Estate Planning

The essence of estate planning is thinking about the future, and developing a program to create preserve, and transfer assets. Estate planning is about life - now and in the future. Most importantly, it's about the life of your family and loved ones, and the peace of mind that comes with ensuring their financial security.

Estate Planning

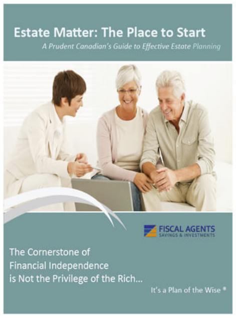


Why You Need an Estate Plan: 10 Simple Steps

Getting started with Estate Planning can seem like a daunting task.

Inside this document you'll find the process broken down into steps - from selecting professionals to hire, setting up a balance sheet, understanding the role of insurance and more.

Estate Planning



Estate Matter: The Place to Start

For most people, estate planning is a difficult subject to discuss and to plan for, because it forces us to come to terms with our own mortality.

Yet it is something you need to discuss openly with your loved ones today, because you can't do so after you're gone.

Estate Planning

Estate Planning: Being an Executor
What are your responsibilities & obligations?

Being named as an executor of an estate is a big undertaking requiring a considerable amount of time and knowledge. You have been entrusted to handle the financial affairs of the deceased in their absence and owe it to them to make sure you know what is required of you.

Retirement Planning

Financial planning your Retirement: How do you get started?

No matter what your age or stage of life, you should have some form of financial plan for retirement. It's said that financial planning for retirement should be a career long process, and the longer you are able to set money aside for retirement, the more compound interest will work for you.

Retirement Planning

Incapacity: Planning ahead helps

Accidents and aging are a part of life. Like an up-to-date will, a power of attorney is an important tool in financial and estate planning. Planning ahead in case of serious disability or health problems allows decision-making relating to property or personal care to proceed without unnecessary disruption.

General Interest

Financial Independence Checklist

Experience has shown there are six key principles to financial independence. Those who adhere to them are more likely to succeed. Those who don't jeopardize their chances at financial independence. In this document we describe the six principles in detail, and provide a brief explanation on how you can apply them to your situation.

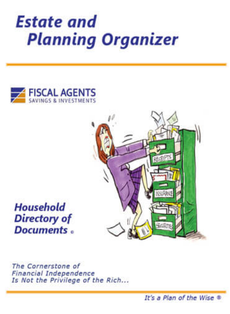
General Interest

Planning for your children's future

In today's hectic world, planning plays an important role in the way we live our lives. From major decisions to relatively minor issues, planning is what makes our lives run smoothly.

We often put off tackling the chore of making the most important choices: Planning for our future and the futures of our children.

Reference Guides

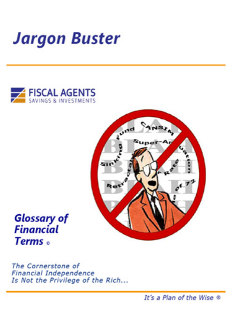


Estate and Planning Organizer: Household Directory of Documents

A useful tool for anyone who understands the importance of keeping clear and concise records that, when completed, will be invaluable to you, your family members and loved ones, as well as to the executors of your estate.

This publication is completely interactive - you can add or update information to it whenever you like.

Reference Guides



Jargon Buster: Glossary of Financial Terms

Designed for both the finance professional and the money market novice, with over 1,200 concise definitions of relevant terms used in the financial industry, the Jargon Buster touches on almost every facet of finance, investment and savings in a manner that is clear and easy to understand.