T·E·WEALTH
SUCCESSFUL WEALTH STRATEGIES SINCE 1972

The challenge: How to get ‘unstuck’ in a stagnant economy

via The Globe and Mail | February 2013

How do you spell “meh?” Take a high unemployment rate and tack it onto low GDP growth, rock-bottom interest rates and nary a good investment opportunity in sight. Here’s another way to describe the phenomenon: a stagnant economy, what we’re experiencing right now. “This economy just keeps going sideways and we’ve been here for a while,” says Jason Abbott, a certified financial planner and president of WEALTHdesigns.ca Inc., in Toronto.

It seems economic stagnation will become the norm for some time. The upshot? People will do what they normally do during sluggish times: hunker down and take fewer financial risks.

Yet according to Cary List, president and chief executive officer at the Financial Planning Standards Council in Toronto, it’s more important than ever to create a solid financial plan with a professional planner to learn how to cope. “If you go to a certified financial planner, it’s not just to get five or six per cent on your investment. You’ve got to figure out how you’re going to make your life work with a two-per-cent rate of return,” he says. Here are a few questions to consider when creating a new plan, or updating the one you have, in a meh economy.

Could you lose your job this year? Mr. Abbott says that when he sits down with clients these days, he asks them to have an honest look at how secure their jobs are. That knowledge could change how their investment portfolio looks. For instance, a government employee with a secure pension can afford to take much more risk with their investments than someone working in a tenuous industry or struggling company.

How much debt do you have? With a debt-to-income ratio of a record-high 165 per cent, many Canadians would do well to pay off as much debt as they can, particularly if the interest on that debt runs into the double-digits. When GICs are earning only 2 or 3 per cent, why keep a credit card balance costing 20 per cent? Net worth isn’t just about accumulating assets, it’s about debt elimination, too.

Are you being honest about retirement? Kathryn Jankowski, a certified financial planner and vice-president of T.E. Wealth in Toronto, says one of the biggest mistakes people make when creating a financial plan is not checking it often enough to be sure they’re on the right track. Plans are dynamic, she says. “You don’t want to say, I did a plan back in the 1980s and I’ll be okay.” People who know where they stand at retirement can make changes to their lifestyle now, she says. They can decide to work a couple of years longer, try to earn more through their investments, decide to live on less while retired, or sock away more money today. Knowledge is power.

Are you fighting apathy? “Some people say, ‘Why bother investing? There are no returns out

there,'" admits Mr. Abbott. "Part of my job is to get people back in the pool and start swimming again because there are a lot of people sitting on the sidelines." Yes, there's not a lot of oomph in compounding interest these days, but that doesn't mean people should give up on investing in the first place. Even a government or corporate bond will make more than a wad of cash stuffed under a mattress. Stop waiting for the gravy days to come back. You're going to be waiting a while.

Are you afraid to invest? Sometimes the problem isn't apathy. It's fear. But while it's a good thing to be cautious while the markets are still relatively volatile, fear is the last emotion you want to influence how you deal with your investments, Ms. Jankowski says. In short, fear is often instrumental in investors' decisions to buy high and sell low. When times get tough, the impulse is to hoard money. In truth, a downturn is the best time to invest, and those with a solid financial plan create liquidity so they can take advantage of market slumps. "This market is not forever. It will turn again. But by the time those people sitting in low interest money-market accounts have a comfort level and invest again, they've probably missed a huge return," Ms. Jankowski adds. The trick is to find investments you feel comfortable with. There will always be risk, of course, but the return could be worth it. "Isn't it better to be invested even in something with a GIC return and subjecting your portfolio to a little risk, than sit on the sidelines and do nothing?" Ms. Jankowski asks.

CONTACT US

Ontario Office

26 Wellington St. East, Suite 710
Toronto, ON M5E 1S2
Tel: 416-366-1451
Fax: 416-368-9801

Quebec Office

Suite 2100, 2020 University St.
Montreal, QC H3A 2A5
Tel: 514-845-3200
Fax: 514-845-9944

Atlantic Office

P.O. Box 8955, Postal Station A
St. John's, NL A1B 3R9
Tel: 709-579-3344
Fax: 709-579-3344

Western Office

645 – 7th Avenue SW, Suite 2400
Calgary, AB T2P 4G8
Tel: 403-233-8370
Fax: 403-262-8789

Pacific Office

475 West Georgia St., Suite 720
Vancouver, BC V6B 4M9
Tel: 604-684-2196
Fax: 604-684-2396

Head Office

26 Wellington St. East, Suite 710
Toronto, ON M5E 1S2
Tel: 416-366-1451
Fax: 416-368-9801