5 ways to get your financial house in order

Whether you're buying a first home or retiring, the fundamentals are basically the same

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Vancouver Sun
Saturday, October 18, 2008

1. Assess your priorities and values: Just how important is that new car, state-of-the-art kitchen or Christmas cruise in Mexico?

2. Consider your cash flow: If the money comes up short at the end of the month, it's time to re-evaluate your spending.

3. Add up your assets and liabilities, your prospects and your plan: Educate yourself and get good financial and investment advice.

4. Ditch debt: And don't take on any new obligations. If you don't have the money to pay for it now, forget it.

5. Savvy savings and investments: Rushing for the exits isn't the best strategy when stock prices are hitting rock bottom.

The global economic turmoil is resulting in panicked calls to financial planners and investment advisers, and sleepless nights for many people who are worried about their financial future.

While it may be a frightening time, it also could be the impetus people need to take stock of their spending and our lifestyles.

"On the one side, I know this is a scary time for people. But it is an opportunity, as well, to look at all of these things in our lives in a systematic and logical manner and to connect them to what is really important," said Karin Mizgala, a financial planner, educator and co-founder of the Women's Financial Learning Centre. "I think society has really lost sight of that.

"It has been growth at all costs, consumption at all costs."

Above all, stay calm.

"On the investment side, what is crucial in today's environment is don't panic," said Marion Tennant, a portfolio manager at Phillips, Hager & North Investment Funds Ltd. "Don't let your emotions make the decisions, because they often are the wrong decisions."

Connecting our spending to our values is a mantra preached by a growing number of financial advisers. And although the concept seems simple enough, a check on the average household budget could show spending is way out of whack with priorities.

"The first thing is to take a step back and say, 'What are my priorities, and where am I in life'," said Sheila Walkington, a financial planner and money coach and co-founder with Mizgala of the learning centre. "It is a lot easier if you are [aged] 22 or 42, versus being 62 and looking at retirement right now.

"Each of us has to look at where we are today."

While sorting out finances may be different for a retiree worried about investment income than for someone, early in a career, saving to buy a house, the fundamentals are the same.

Tennant, Mizgala and Walkington have been fielding anxious calls from people worried about stock-market gyrations and talk of a global recession. The Vancouver Sun asked them what people should be doing in the face of financial turmoil, and below we summarize their advice in five steps to getting your financial house in order.

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1. Assess your priorities and values

While it may seem a bit like fiddling while Rome burns, this is exactly the time to do some serious soul-searching on where you are in your life, what your goals are, and what is most important to you. When you're worried your job may disappear, just how important is that new car or Christmas cruise in Mexico?

You might not need a personal trainer, but keeping the yoga classes or gym membership could be good idea since reducing stress and maintaining your health are important.

"Let's get real here: Let's figure out what we want, let's think about what our desires are for retirement, what our priorities are as far as things we want in our life, this is a really good time to take stock," said Mizgala. "All this stuff that is going on in the world is also forcing people to just take a moment and say, 'Whoa, what is life all about?'"

Focusing on your priorities doesn't necessarily mean total hardship. "What are the most important things," Walkington said. "You want to pay the rent or the mortgage, pay for groceries and pay your bills."

2. Consider your Cash Flow

Start with the basics: What comes in and what goes out. It sounds simple enough, but many of us live pay cheque to pay cheque, spending and paying bills without a realistic idea of how our income measures up against the money going out. When it doesn't measure up, credit cards and lines of credit balloon.

"At this point in time borrowing any money for consumer debt makes no sense whatsoever," said Walkington. "You have to run a very tight ship in terms of spending and make sure there is enough income to cover what you need."

If the money comes up short at the end of the month, it's time to re-evaluate your spending. While some people may have the potential to earn more, Walkington warns this is no time to spend more than you earn thinking that bonus will come through or you'll be able to work overtime.

It's not enough to make a budget. What you have to do is realistically -- and that's the tough part -- look at what you spend and what you make. Don't just include the fixed and monthly expenses like food and rent; be honest about periodic expenses like Christmas or vacation spending.

Be careful what you cut out. While turning off the cable is unlikely to hurt your financial health down the road, eliminating something like life or disability insurance is more likely a case of short term gain for long term pain.

3. Add up your assets and liabilities, your prospects, your plan

It's difficult to plan how to survive an economic downturn if you don't know where you stand today. Plus having a financial plan is key. And we have added to the traditional tasks an assessment of your job security and income stability. As consumers cut back, everything from car sales to cruises are hit and there's a ripple effect through the economy.

"No matter what age you are or what your goals are you should always have a financial plan -- a game plan -- you should be addressing your investment strategy, your saving and your debt load and also your cash flows," said Tennant. "You should be prepared for good times and bad times.

"You should always have a rainy day fund set aside."

Educate yourself and get good financial and investment advice. Know what you are paying in fees. They can vary widely.

Tennant advises investors to understand the asset mix they have in their portfolios, to understand the types of equity and fixed income investments in them and make sure they are appropriate for them.

For some, the current downturn represents a bargain-basement, buying opportunity. Warren Buffet's commentary in the Friday New York Times was the buzz of investment types. The legendary investor wrote that he is buying American stocks.

"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors," he wrote.

4. Ditch Debt

Make a plan for reducing your debt. It has to be more structured than a simple, "I won't buy any more new shoes and everything I make will go into paying off my credit card." The problem is that if you don't first account for all your spending needs, just as fast as you are putting money off your debt you'll be building up more debt because you haven't left enough money in your bank account to buy groceries.

High interest debt, such as credit cards, is the first priority to cut. Walkington said she has had clients who were successful in having their credit card interest lowered with nothing more than a call to the credit card company. Interest rates on a line of credit are lower than credit cards so if you owe money it is better to be at the lower rate. Guard against simply running up more credit card debt and transferring it to your line of credit.

Back to Walkington's earlier point: Don't take on any new debt. If you have don't have the money to pay for it now, forget it.

If you have a plan to pay down your mortgage, you don't necessarily have to make any changes. If you have a floating interest rate and you're having anxiety attacks every time someone talks about interest rate fluctuations, you might consider locking it in.

Try not to fall into the trap of extending your mortgage to the never-never plan that won't see it paid off by the time you retire.

5. Savvy Savings and Investments

If you have money in equities, whether it's in stocks or through mutual funds it's not going to be easy watching the markets in free fall -- and with them your hard-earned savings. However, rushing for the exits isn't the best strategy when stock prices are hitting rock bottom.

"The first thing you have to do is take a really deep breath," said Mizgala. "Typically my clients we have gone through the process of putting a plan in place, not that it anticipated this devastation we have seen, but the amount of equity exposure they have is definitely appropriate relative to their age and stage.

"There is no time like now to reinforce the importance of a plan."

If you had a plan in place, it's unlikely you have found yourself with all your investments in equities and retirement six months away. So don't panic. Even if you are retired, you don't have to cash in all your investments to live right.

"For somebody who is 40 it probably won't make a difference, keep doing what you are doing," said Walkington. "If you were on track a year ago you should still be on track.

"But for somebody who is 62 and planning to retire next year, you should look at your plan and see if it would be safer to work a little longer.

"Now is a good time to go and chat with your investment advisor as well."

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