WORLDSOURCE FINANCIAL MANAGEMENT INC.

Wealth Consultant

Helping you save strategically

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SUMMERTIME

A PERFECT SUMMER DAY IS WHEN THE SUN IS SHINING, THE BREEZE IS BLOWING, THE BIRDS ARE SINGING, AND THE LAWN MOWER IS BROKEN.

~JAMES DENT

WHAT'S YOUR NUMBER?

When you think about your financial future, you have probably contemplated a 'number'.

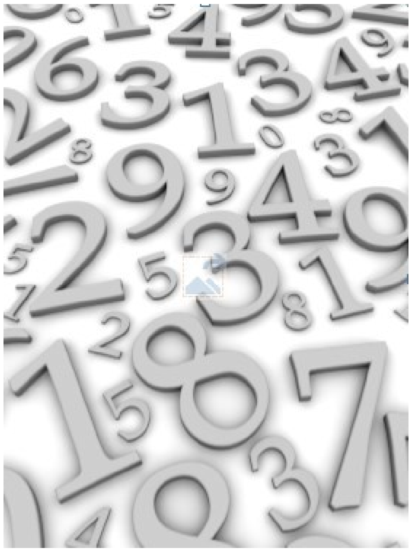
What exactly is that number based on? Is it the age that you can afford to retire at? Or is it the rate of return or dollar amount that you need to achieve ? Or is it another number?

As you can imagine, calculating your future is a complex equation. That's because there are many numbers to contemplate. And those numbers are also constantly changing.

For instance, we are living longer (Statistics Canada results from the 2011 census reported centenarians were the second fastest growing age group, after the age 60-64 cohort) and, as a result, our retirement savings will need to be stretched much further in the years ahead.

Another significant change for Canadians revolves around Old Age Security (OAS) and when you can begin to receive it. In recent years the age that you can begin to receive OAS has changed from 65 to 67, only to be changed back to 65 as part of the last federal budget!

"...CALCULATING YOUR FINANCIAL FUTURE IS A COMPLEX EQUATION."



WHAT'S YOUR NUMBER? continued

In fact, OAS is not the only public pension plan to announce significant changes this year. In June, the Canada Pension Plan (CPP) also announced a facelift, one that will increase the amount that Canadians receive and pay into the plan.

While all of these numbers form part of your future financial plans, the impact of these changes must also be evaluated when they occur, in order to keep you on track to realizing your financial goals.

FACTORING IN RATES OF RETURN

However, these are not the only numbers that can change over time or can cause confusion in planning your future financial circumstances.

Calculating the rate of return (ROR) of your investment portfolio is perhaps the best example of this. Arguably no number is more important to your financial situation than this one. And yet this seemingly simple number to compute can be far from straightforward, especially if there are cash flows such as purchases and redemptions involved.

Confusing the issue more is that there are several ways to calculate your ROR, that can vary the results greatly. Generally speaking, ROR can be calculated on either a time-weighted or money-weighted basis.

So what's the difference between a time-weighted and a money-weighted rate of return? It's all about the cash flows in and out of your portfolio. Let's take a look at the two ROR calculation methodologies and find out why.

TIME-WEIGHTED RATE OF RETURN (TWRR)

The time-weighted methodology ignores your actions with respect to the timing of contributions and withdrawals that you make. As a result, it is best used when determining the ROR of a mutual fund as it shows the performance of the Fund (i.e. the manager's performance) and factors out the decisions made by you (i.e. timing of contributions and withdrawals). As TWRR evaluates the performance of the Funds that you invest in, it is best used to compare performance versus that of a benchmark such as a stock/bond index (e.g. S&P/TSX Composite Index).

"SO WHAT'S THE DIFFERENCE BETWEEN A TIME-WEIGHTED ROR AND A MONEY-WEIGHTED ROR? "

MONEY-WEIGHTED RATE OF RETURN (MWRR)

Money-weighted returns take into consideration the impact of your contributions and withdrawals to/from your portfolio and are therefore a more accurate portrayal of your personal investing experience. While money-weighted returns take into consideration your transactions, this ROR method is usually inappropriate for comparing your returns against a stock/bond index as it measures your personal return only.

While knowing the rate of return that you need in order to achieve your financial goals is important, so too is understanding how it is calculated as well as the other numbers that comprise your financial future.

So do you know your number now?

ARE YOU READY?

A global retirement report published by HSBC entitled "The Future of Retirement", indicates that more than two-thirds (69%) of working age people are worried about running out of money in retirement, while 66% are concerned about simply having enough money to live day-to-day on. However, despite these daunting statistics the report offers some much welcomed good news to Canadians as 72% of retired Canadians report that they are happy in retirement which was second only to the 80% of retirees in Mexico.

These statistics suggest that retirement is about more than just a number even as you include considerations that can be numerically quantified such as:

- ☐ the age which you retire at
- ☐ the optimal age to begin receiving the Canada Pension Plan
- ☐ the amount of retirement income that you require to support your lifestyle

For instance, you may want to retire while you are still able to enjoy your savings or you may also want to consider easing into full retirement by slowly reducing the number of hours you work. Statistics Canada reports that retirement may not be about sailing into the sunset, despite the savings that you have set aside over the years. The report indicates that retirees over the age of 55 report more aches and pains and less physical activity than those who continue working at that age, while 24% of full retirees report poor or fair health compared with the 11% that age who had partially retired and 35% who had retired, but returned to work in some capacity.

What a surprise to learn that we all love what we do, or perhaps it is because we are simply too busy to realize that we love what we do. Or perhaps we can assume that work keeps us in shape.

All these numbers seem to indicate you may also need to prepare yourself physically, mentally and emotionally to stay in shape when you are not working?

Strengthen your mind – consider adult art or Sudoku or perhaps play chess in the park. These are activities that may help you relax while helping your brain do the heavy lifting.

Stay physically active – retirement doesn't have to be about slowing down. If you have been physically active or had the motivation but not the time, to be as active as you would like, retirement can provide you with the freedom to compete in your first bicycle tour, or set a new personal best in a half or full marathon. Or if a lower key athletic regimen is your style, you can simply enjoy some fresh air by taking up hiking.

If nothing else, a defined exercise schedule can help provide you with the structure that you had during your working career.

Matters of the heart – retirement may also see dramatic changes to your social network. While you may initially stay in contact with the people you worked with, you will also most likely create new friendships with those that you have common interests in, or who are members of the groups that you join.

And the increased time that you spend at home with your significant other may also cause strain to your relationship. Unfortunately this refers to the term, "grey divorce" which, according to Statistics Canada (2008), has been steadily growing among those 55 and over, with rates expected to increase as more people continue to age. This is why couples should explore retirement together well in advance of taking the plunge, in order to ensure that the retirement vision is shared.

TIME FOR A TEST DRIVE

Once you have set your retirement window it's time to begin creating your retirement lifestyle at least four to five years from that start date.

So how do you start this process? Whatever type of career you are retiring from, you need to have an idea of what your new lane will be and where it will take you. So before you buy that RV and head down Route 66 to start your version of "On the Road", you may want to rent one and see if that type of nomadic lifestyle is really for you.

You may also want to consider downsizing your home while you are still working – this way you are fully immersed in your new environment by the time you retire.

> *"WHATEVER YOU DECIDE—ITS ABSOLUTELY IMPERATIVE THAT YOU BE PATIENT."*

Whatever you decide – it is absolutely imperative that you be patient. Retirement is a huge chapter in your life … and it will be a process, but with the right amount of planning and preparation, retirement can be a relaxing and fun-filled experience.

IMPORTANT DATES

August 1, 2016
Terry Fox Day in Manitoba

September 5, 2016
Labour Day

September 22, 2016
September Equinox