

Top 10 Financial Resolutions for 2010

HIGHLIGHTS

- ✚ Take control of your finances
- ✚ Pay down debt
- ✚ Spend less
- ✚ Save more
- ✚ Develop a personal investment policy statement
- ✚ Rebalance
- ✚ Get tax efficient
- ✚ Don't give up
- ✚ Review, adjust, enjoy

With 2009 slated to go down as a tumultuous time for your money, 2010 could prove to be the year when Canadians put their financial house in order - provided they can get their balance sheets under control.

Heading into the new year, debt is the biggest financial hurdle for many families, says certified financial planner Bradley Roulston, a manager of the Nelson & District Credit Union in British Columbia.

"Household debt - mostly mortgages and consumer debt - has increased to record levels. And with interest rates bound to go up, people need to make sure they have enough cash flow to sustain a few percentage [point] increases on their payments."

The debt-to-income ratio among households hit a record this year. The latest Statscan report showed that for every \$100 of personal disposable income, Canadians are carrying \$145 in debt, up sharply from \$88.60 in 1990. The ballooning debt comes at a time when the Bank of Canada is warning of higher interest rates.

Citing potential interest rate increases, Manulife Securities senior financial adviser Kurt Rosentreter is advising clients shopping for real estate in 2010 to take defensive measures. "Resist overpaying for a home, delay the purchase of secondary or recreational real estate, save for larger initial deposits and focus on debt repayment more than new, optional portfolio savings."

Given the massive Canadian stock market decline and ensuing rebound, investors also had a rocky 2009.

Patricia Lovett-Reid, a certified financial planner and senior vice-president at TD Waterhouse Canada Inc., says that while investors "climbed a huge wall of worry" in 2009, Canadians are still stashing money in "safe" places, like cash and savings accounts.

"Even though the stock market turned in March, people are still terrified to move up the yield curve," she said.

Ms. Lovett-Reid expects that will start to change in 2010, when people re-evaluate not only their investment portfolios but also increase their savings rates, tackle debt loads and develop a financial plan - some for the first time.

"This will be the year when people feel they really need to take back control of their money," she said. "It is empowering to be in the driver's seat and I think 2010 will let us do that."

1) Take Control of your Finances

Take the time to get a professionally developed financial plan that meets your personal goals. Take a course or a seminar to brush up on your financial know-how. It does not matter how much money you do or don't have, this is the time to get in the driver's seat. "Your financial plan is going to be the GPS to control your emotions and make rational decisions this year," says Ms. Lovett-Reid.

2) Pay Down Debt

As a rule of thumb, pay off your high-interest and non-tax deductible debt first. Consider consolidating your debt, cutting up secondary credit cards and, if possible, make more than your minimum monthly payments. "When the holiday spending hangover comes, tackle those January and February balances hard. Try avoiding any new credit card debt for the first few months," Mr. Roulston says.

3) Spend Less

With only so much money coming in, decide what really matters to you. Set a family threshold with specific goals, one that curbs the urge to impulse buy. "Frugality is our reality now and living within your means has taken a new meaning. A budget allows you to take corrective action, it gives you a road-map," says Ms. Lovett-Reid, adding that she and her husband review their family budget each week.

4) Save More

Canadians are saving about 4.8 per cent of their personal income, down sharply from



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roughly 10 per cent back in the 1980s. The trick to saving is simple: don't spend everything you earn. Mr. Roulston suggests having one spend nothing day each month. Another option is to automatically divert a small portion of each paycheque into a separate bank account designated for saving.

5) Develop a Personal Investment Statement

Aside from your investing plan, articulate - and stick with - a personal philosophy for your portfolio. Ms. Lovett-Reid advises her clients to sit down and write out their investment goals, risk tolerance, and required rate of return. Once you have it in writing, review it at least once a year.

6) Rebalance

Aim for 2010 to be a year of balance. Are you sitting on too much in cash? Move up the yield curve incrementally. Are you too heavily invested in equities? Try to get a good mix of bonds, stocks and other investments. "This is the year to find a required rate of return for achieving your goals. Go back to your asset allocation and stay true to that," says Ms. Lovett-Reid.

7) Get Tax Efficient

For many Canadians, paying the taxman is their single biggest expense. Even in the midst of an economic recovery, people can still take steps to deduct, defer and divide their way to a lower tax bill. Consider splitting income with family members, using the home renovation and child fitness tax credits, or juggling asset allocation and life insurance to ensure the most tax-friendly transfer of wealth.

8) Get Insured

Not every Canadian absolutely needs insurance, but everyone should at least think about what would happen to their family if they suddenly passed away or became critically ill. Would your family be able to maintain the lifestyle they are accustomed to? "Depending on how you answer that will dictate whether you need to incorporate life insurance into your overall plan," says Ms. Lovett-Reid.

9) Don't Give Up

Watching the value of your portfolio drop by 25 per cent is as difficult as losing that extra 25 pounds. Developing and living according to a financial plan takes time and patience. "Make sure the investment plan reflects your goals and risk levels," says Mr. Rosentreter. Rebalance yearly to capture gains and remember that "staying on plan presents the greatest likelihood of achieving desired results long term."

10) Review, Adjust and Enjoy

The recent economic and stock market downturns have taught people the need to spend responsibly, within the context of a financial plan and their lifestyle. Having a solid financial foundation in place frees you up to do all those things that give your life more meaning. "That alone will reduce your financial anxiety," says Ms. Lovett-Reid.

Disclaimer:

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