

LARA AUSTIN

MINDING MONEY



Wealth Management
Dominion Securities



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For the friends and clients
of Lara D. Austin,
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Apps and software will never replace a human connection

In the course of my daily readings I came across an article about financial literacy with a reference to a recently published federal government report. I found the report's focus on workplace-based financial education programs troublesome – turn to p.4 to find out why.

For those familiar with my practice, you know I use every opportunity to improve the financial acumen of whomever I come across – but there needs to be more! As society evolves beyond 'one company for life' and fixed pensions for nearly every retiree, new attitudes and resources on financial literacy must be developed in order to help the next generation adapt. Never before has our society put so much of the responsibility for financial choice in the hands of the average citizen.

My background in psychology and 25 years in practice tells me the number one thing that impacts financial behaviors is having someone to hold yourself accountable to. The sooner an investor realizes their financial advisor (or planner or coach) is a strategic part of managing fear, greed, crafting savings habits, planning goals, and any number of behaviors, the better the outcome will be! You

can only get that with a human connection – no software or webcast will ever replace that.

It's spring and the snowbirds have come back. Many mentioned they noticed a huge difference in the price of goods, beyond the obvious gas tank fill. Those comments inspired me to dig deeper on CPI (see p.2).

In mid-May we completed the 5-week learning series "Be kind to those you leave behind." The series left our group appreciating each other's stories and shared knowledge on end-of-life planning. I'm working on my funeral plans and obituary and find comfort in knowing I'm likely ahead of schedule! I'll be taking a break on workshops until fall but I have two fabulous events in the works, so stay tuned.

If you are a client and feeling a little confounded by market events, know that you can always reach out even if we haven't booked a review meeting. If you are not a client and want to know more about what you can expect to experience with me, I'm happy to give you a tour!

Sincerely,

Lara D. Austin

If you earn or spend money, the Consumer Price Index is relevant to you

CPI (Consumer Price Index) is relevant to each and every one of us who earn or spend money. The index is often used to adjust pension payments (like Old Age Security). It can also be used to adjust rental agreements, spousal and child support payments, Cost of Living arrangements (COLA) as they relate to private pension or disability payments, and often long-term investors like Foundations try and target a specific return plus inflation.

It makes sense to understand what CPI is and what it is *not*.

CPI figures are updated monthly on the [Statistics Canada website](#). There you will find eight distinct categories make up CPI: food; shelter; household operations and furnishings; clothing and footwear; transportation; health and personal care; recreation, education and reading; and alcoholic beverages and tobacco products.

CPI as a measure of the percentage change over time in the average cost of a large basket of goods and services purchased by Canadians. The quantity and quality of the goods and services in the basket remain the same. Therefore, changes in the cost of the basket over time are not due to changes in the quantity and/or quality of the goods and services observed.

The Consumer Price Index is *not* a measure of price levels. Price indexes



The Consumer Price Index shows the rate at which prices change between two periods—everything from hair cuts to oil are tracked by Statistics Canada.

show the *rate* at which prices change between two periods.

The CPI is *not* a cost-of-living index, though people frequently call it this. In theory, the objective behind a cost-of-living index is to measure price changes experienced by consumers in maintaining a constant standard of living. The idea is that consumers would normally switch between products as the price relationship of goods changes.

Over 60,000 price quotations are collected each month by skilled interviewers operating out of the regional offices of Statistics Canada. Everything from hair cuts to oil changes are recorded. To ensure that

price movements reflect the experience of most of the population, the interviewers follow the prices of the brands and varieties which sell in the greatest volume. Interviewers also try to obtain reasons for significant price changes. This information is used in verifying the data and in explaining the overall results.

Although an update hasn't been released since 1998, if you want to learn more it is worth spending some time with [the guide](#) provided by Statistics Canada.

Using posted CPI figures as your personal index of inflation may not work as well as you would like.

Continued on p.3

Wealth planning? Here are 5 key questions to consider

On a regular basis, our Financial Advisory Group puts out worthwhile guides or white papers on planning issues. I share these with clients I think will benefit, based on our regular reviews together. Recently a short guide came out that I am happy to share with any reader who sends me a request.

In every stage of adult life, individuals are tasked with making a range of wealth-management decisions. No matter the circumstances, a commonality exists: there is great benefit in possessing a basic understanding and awareness that goes into the concepts and reasoning of each decision.

Specifically, 5 questions to ask are:

1. What is more favorable: reduce my mortgage debt or save for retirement?
2. What is a better savings option, an RRSP or a TFSA?
3. What is the best way to handle an inheritance?
4. How can TFSA, RRSP government and other sources of income, and “income splitting” be strategized in retirement (or, which do I use first)?
5. What are the key considerations of estate planning and successfully leaving a legacy?

Over the last 25 years I have collected a variety of different resources to address these



Our Financial Advisory Group’s new guide on wealth planning asks readers to consider five key questions when planning for their future.

common but key questions. For the first time, I can provide clients with a guide that uses easy to understand language and offers useful, real life examples to illustrate the advice.

Please contact myself or Una by email and we can send you a copy of the 19-page guide *Five Key Questions to Consider in Wealth Planning*.

Continued from p.2

Why the CPI matters to you

Asset classes can go through bubbles or declines that skew the index but may or may not affect you. Common Asset Class inflation bubbles are caused by Oil, Food, Housing, and Gold. Certain areas can experience wage inflation, where supply and demand of skilled workers impact the wages in that area, but don’t show up in aggregate data.

If you have additional questions about how CPI is relevant to you, don’t hesitate to get in touch!

A theory for thought

The theory that inflation is related to demographics has had something of a renaissance in recent years. Harry Dent, the US economist and author, has written a number of books proposing that the demographic profile of a country is strongly correlated with its economic prosperity. The main thrust of his argument is that people’s expenditures increase through their lives until their late 40’s and then declines. Therefore, when there is a rise in the number of younger people in a population it leads to inflation and, similarly, when the average age of the population rises significantly, you get deflation as the net expenditure declines.

Financial literacy goes to work

In April of this year, the Financial Consumer Agency of Canada released its *Progress Report: Canada's National Research Plan on Financial Literacy 2016-2018*.

You can access the [37-page report](#), but I wanted to provide you with some key takeaways:

- Generally, compared to other countries, Canadians score well on basic financial literacy questions and are moderately confident in their knowledge. However, women scored worse than men on knowledge-based questions, particularly those relating to inflation and compound interest.

- When couples share the responsibility for the long-term financial management of the household or where women's contributions to household income is similar to that of their male partner, there is no gender difference in financial knowledge.

- OECD/INFE survey findings found 85% of Canadians rated their financial knowledge as average or above;

however, only 61% were able to answer 5 of 7 questions (70%) of the financial knowledge questions correctly.

The report seemed to lean toward encouraging workplaces to be the solution for financial literacy, stating: "Findings demonstrate that the majority of Canadians (59%) would prefer to attend workplace education programs during work hours while 33% would prefer the use of a recorded webinar that can be accessed anytime. Such programs may provide a key resources for retirement planning."

The report does not address solutions for those who are self employed, or employees of small businesses without the resources to give up hourly time to financial learning. The justification for workplace-based financial education comes from a 2014 Financial Planning Standards council survey that found 42% of Canadians rank money as



A report found most Canadians prefer to attend financial literacy programs during workplace hours—but what about businesses that don't have the resources to provide financial education?

the greatest source of stress – more stressful than work, health or family obligations. That financial stress affects workplace performance and productivity and increases absenteeism. The report says it could cost an organization several hours a week for a financially distressed employee to deal with financial problems.

It also suggested there be "targeted financial literacy interventions" to address the realities of specific populations such as Indigenous peoples, seniors and newcomers,

and to help Canadians make informed financial decisions when faced with expected (e.g. buying a home) and unexpected (e.g. caring for someone who is ill) life events.

There was little mentioned in the report about the role the financial services industry plays in financial education, either currently or as a potential ready resource for future generations of Canadians.

Send me an email if you'd like to discuss this report further!



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