



Aren't You

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Tidbits to help you through the financial labyrinth of life

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### 1, Again, about the usefulness of personal financial planning

Mutual fund companies print lots of materials, ... some are just sales tools, blowing their own trumpet, but others are more useful and educational. In this second category, AIM Funds Management published an interesting booklet, *Personal financial planning: a report on research*, written by Donald J. S. Brean, from the Rothman School of Management, University of Toronto. Out of this publication I offer some ideas here. First, the report talks about the lifecycle concept of wealth management, and the changing landscape of job mobility, then the six-step format and the process of financial planning, followed by results of related surveys of Canadians. All good stuff, ... but what I found most interesting is the second part of the report, dealing with some exciting psychological issues of goal-setting, planning, dealing with uncertainty, self-assessment, and attitudes toward change and planning.

One of the most robust and practical theories of social science, goal-setting theory, has direct relevance to personal financial planning. It confirms the usefulness of having written plans: clearly articulating goals is crucial to establishing the commitment necessary to achieve them. Three main characteristics of effective planning are:

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<http://asset-aid.com> or <http://personalfinancialplanning.ca>.

- the goals must be specific
- the goals should be moderately challenging
- achieving the goals is more likely when others are aware of the commitment to meaningful objectives.

Written personal goals serve four functions; they

- direct attention and effort
- energize, and lead to concentrated effort (because the goal is specific, attainable, and important)
- affect persistence, ... can give a lifelong perspective
- affect action indirectly, by prompting enhanced interest, search for improvement and creative application of task-relevant knowledge to meeting the goals.

“To some people,” writes Brean, “personal financial planning seems reasonable, responsible, and even interesting. It can be intriguing and satisfying to plan and organize one’s affairs well ahead of time. To others, however, the process of planning is mysterious, threatening and a must to avoid. What accounts for the fact that some people welcome the opportunity to bring order and direction to their finances while others are downright fretful and resistant? The answer has little to do with finance and a lot to do with attitudes toward uncertainty and how people approach risk in different ways.”

It has been demonstrated many times that people in general have the tendency of putting themselves above the average, ... whether in terms of smartness, financial future, or else. In other words, psychology and emotions can easily get in the way of proper planning. To quote directly again: “Such rosy optimism underlies a very real tendency to be smug in planning and to underestimate the amount of savings that one must tuck away to reach reasonable retirement goals. Both of these potentially perilous tendencies can be addressed and put right by proper planning, including the seemingly mundane exercise of writing out the personal financial plan inclusive of all its elements – current financial status, objectives and a financial roadmap to retirement.

“Modern psychology offers up a remarkable array of patterned behaviour to suggest that when it comes to calculation and personal planning most of us are hobbled by a combination of fear of regret and self-deceiving shortsightedness that makes us either fretfully conservative or carelessly irresponsible. In the face of uncertainty that besets us all, some stuff money in a low-interest mattress, others place casino-like bets while still others don’t even think about the future. Along with each thoughtless option is a call for a more reasoned and informed alternative.”

In closing, here is the last two paragraphs from the report: “A well-designed financial plan is the foundation of the lifelong process of personal financial management. The planning process itself helps to articulate financial goals

and to better understand the trade-offs that one inevitably faces in personal finance. Above all, the planning process sets a strategy to achieve objectives.

“A written financial plan with clearly articulated goals that evolve in the process of writing the plan establishes the commitment necessary to achieve important goals. With a written financial plan, people are more satisfied, more confident and more secure to their long-term financial goals and objectives.”

## 2, New software tool – more than a toy

By now, we’ve got used to computers as data-banks, communication tools, and number-crunchers in finance and planning. On the other hand, there has been only limited use of them as creativity enhancers, value revealers, and effective goal-setters and motivators. In real life, these latter aspects are hugely important, as the report described above also confirms. Experience and research have taught us that even the best number-crunchers and probability analyzers cannot guarantee the desired futures, ... in fact, nothing can guarantee it. History is an indispensable guide, but not more than that. It’s quite mind boggling how many things are quite unpredictable, ... we should likely consider a range of scenarios, and – perhaps the most important – focus on things that are under our control.

Recently, I found a new software tool, VisionWorks, that I think is quite revolutionary. I find it very satisfying that it supports my long-held views about planning and client relations, and it helps to implement them. It is not a retirement calculator, not an asset-allocation program, an insurance needs analyzer, or a tax planner, ... not even simply a combination of such kinds of specialized tools. It reaches be-

[Picture in full version here](#)

*The input is fully personalized, flexible, and comprehensive*

yond what even the most complicated financial planning software before did. It embraces a broader vision than dealing purely with taxes, returns, and other (hard, external) factors. It has the enormous computational power of those previous generation programs (consideration of the interplay of

very detailed taxation and retirement issues, inheritance and family laws, portfolio design, and the like), but it puts the emphasis on stimulating and ensuring the best possible human input (in terms of revealed, conscious goals, visions, wants, dreams, lifestyle choices, fears, concerns, attitudes, communication) and, as a result, on the generation of the most useful and practical output: clear action plans, and a way to revisit and adjust those plans as needed. It stimulates dynamic, big-picture thinking, while

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*VisionWork can compare unlimited number of scenarios*

at the same time does not neglect myriad details either. In other words, it helps to switch from the notion of a planner preparing a plan for a client to the much more useful idea of a planner and clients working together on the plan, ... thus making the exercise much more personalized, meaningful, flexible and useful than the straitjacket of some earlier generation cookie-cutter programs. Application of the software emphasizes learning and conscious choices, and it fits well with the emerging 'life-planning' paradigm, the combination of both left and right brain thinking, a next step in dealing with financial matters sensibly. Because it is a flexible and interactive program, it can be as detailed as we want. It can embellish the broad-brush, long-term vision, and connect the present with the near and far future. These features make it easy to relate to the plan, to believe in it, and to espouse and act upon it. Once you have a life-plan, you may want to delegate more or less implementation decisions and actions to others, ... but would not it be bizarre to ask someone to see your dreams before you yourself do? The most important ingredient of preparing your plan is your participation; it cannot be substituted with anything, ... and this software can make the exercise much easier, more meaningful, ... even exciting and enjoyable.

Anybody can try and buy the consumer version of the program from [www.visionsystemscorp.com](http://www.visionsystemscorp.com). However user-friendly it is though, mastering it takes at least a few hours of learning. More important, even the best software cannot fully replace human partners, ... like your humble servant, I think. Special knowledge and independent stance (of a

neutral facilitator / coach of the process) cannot be bought with any software. So, try it alone if you like, ... and / or contact me if you'd like to try it together.

### 3, You don't need a Swiss army knife to slice a tomato

Yes, a paring knife will do the job perfectly well. Distinguishing needs and wants is a basic part of life— and financial planning, still it's not a trivial matter in our society. As a consequence, there are examples not only for under planning and –saving, but also for pointless overdrive for and unhealthy worry about having enough later.

What I mean by the tomato metaphor here is that while complicated tools like VisionWork cannot really be substituted by simpler tools for some jobs (such as a life plan), ... there are other tools that can be preferable for certain more limited jobs (like simple investment plans, or setting up an education savings system) and/or for people who do not want to work on a comprehensive life plan. There is a broad selection of such tools. I'd like to mention a brand new one, Dundee PILOT, that I can use with clients. It is an investment planning program that, based on your input (goals, circumstances, preferences, time horizon, attitudes), helps to produce a customized investment policy and a portfolio solution that can guide actions.

[Picture in full version here](#)

*Screenshot from the Dundee Pilot program*

Although this program is built on state of the art financial theories and knowledge, and is an excellent education tool as well, I intend to keep using a few older programs of similar character also. The reason for this is basically a belief in the value of triangulation (a basic concept in land surveying, sailing, or scientific research, e.g.), as opposed to relying only on a single tool, or point of reference. Quite simply, I feel more comfortable with a suggestion if it is supported by more than one tool, approach, method, or argument.

### 4, Thinking and acting as if the future mattered

Willingness and ability to think broadly and long-term about own life and finances is probably more natural for some people than for others but, I believe, it can be improved with anybody. Being knowledgeable and well informed is help-

ful, of course. As I see it, it takes hardly more ingredients, perhaps just a general positive and responsible disposition to the outside world (our families, other people, or life in general) to become an advocate of socially responsible investing (SRI). Actually, the majority of Canadians, when asked in surveys, endorses the idea that businesses should be concerned with more than solely profit-maximization. These people want companies to prosper not at the expense of the environment, and to behave ethically relative to their employees, local communities or society at large. This strong endorsement is not fully reflected yet in the growing still modest proportion of money invested along SRI principles. The main obstacles to change this situation are the following:

- *Lack of shelf place.* Much of the financial industry and many advisors are not interested in changing their ignorance, biases, and misconceptions about SRI. As a result, the public has no easy access to information, financial products, advisors, and managers specialized in SRI.
- *The false notion of SRI financial under-performance* is lingering on in the mind of many people.
- *Doubts about the sincerity and/or usefulness and effectiveness of SRI.* (For a recent critique, please read my Dec 2004 newsletter about Paul Hawkin's report.)

It is my great pleasure to introduce here an excellent new book that directly addresses all the listed obstacles. *Global Profit AND Global Justice: Using your money to change the world* was written by Deb Abbey (and four other contributors), who is the founder and CEO of Real Assets, a very special mutual fund company in Vancouver. Even more than the other few Canadian SRI mutual fund companies, Real Assets focuses on shareholder advocacy (direct attempts to influence corporations' behaviour as part-owners of them), and what they call social impact investing. This term reflects a pragmatic, participatory approach: instigating some positive change in a huge company is often seen more important than rewarding and instigating some bigger change in a small company. Real Assets has both these pragmatic and more 'fussy' funds, ... where they are not making trade-offs but deal only with the best of the best. It is to be appreciated that they are quite transparent about these issues, effectively increasing the choice SRI-minded investors can pick from.

The book is not a disguised self-promotion piece though. It contains valuable chapters on consumer action (choices, habits, activism), community investment, charitable giving, leadership aspects of transforming businesses toward a more sustainable state, pension fund activism, and some general aspects of globalization, as well as the evolving story of the sustainability movement. I have never seen so much research evidence than in this book that shows how

well SRI returns stand the comparison with non-SRI, long term and in various countries. The book is well written, and packed with specific information that makes it a valuable resource.

## 5, An intriguing novelty: Target Click Funds

One of the benefits of working with a financial advisor, I claim, is that this way you can learn about new developments that may offer opportunities or pose challenges to your financial health. You don't have to be a pro to be aware of the recent elimination of the 30% foreign content limit in RRSPs, ... it was covered widely in the media. From among the less covered recent news I pick out the launch of a new type of mutual fund group, by Clarington Funds, because it seems to be very promising. These funds are essentially global asset allocation portfolios (balanced funds) with various risk and return profiles based on their term to maturity: 2010, 2015, 2020, 2025. Besides some other nice features, the main strength is that they offer, at a reasonable price, unheard-of guarantees: inception value or highest month-end value ever achieved, whichever is higher at maturity. Given the current state and prospects of the world, the American economy especially, and the potential dire consequences to all of us, I think this novelty should be seriously

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*Better maturity return guarantees than with seg funds, at a lower cost.*

considered by people with long time horizon, especially if there is just a small chance that they have to cash-in before the maturity date. (Wouldn't it be great to have an SRI version of this kind of fund available as well one day?)

There are both the financial strength of the highly reputed Dutch ABN AMRO Bank, and their complicated but tried strategy behind the prospects and guarantees of the funds. In Europe, they launched similar funds in 2000, and their performance so far has been impressive. As we all (should) know, past performance doesn't guarantee anything, but the nice thing is that in this case there are even very generous and quite strong maturity guarantees available.



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