What would you recommend to a parent who is trying to instill similar values in their children? Kevin O’Leary: I’m a mother instilled values that basically say money is going to be part of your relationship with the world for the rest of your life; you’re either going to have a really good relationship or a really bad relationship with it. The concept was basically to not spend too much money, and to ensure you have a source of income and subtract from that every expense you’ve got. You’ll get one of two answers, you’re both making money and slowly building wealth or you’re going further into debt and losing money. If you find yourself in a negative number you absolutely have to change your lifestyle. There is no way on earth you can maintain losing money every single day.

MP: What advice would you give someone who has never lived within their means and has acquired a mass amount of debt? KO: You need to calculate your “90 day number”, which I outline in my book. You need to look at your life over a three month period, add up every source of income and subtract from that every expense you’ve got. You’ll get one of two answers, you’re both making money and slowly building wealth or you’re going further into debt and losing money. If you find yourself in a negative number you absolutely have to change your lifestyle.

No more than five percent in any one opportunity and hopefully it’s a very pragmatic approach to this. KO: There are very simple rules. If you adhere to them life is a beautiful place. But if you don’t put a tremendous amount of stress on yourself and your family and others will end in ruin.

MP: Are financial woes becoming an epidemic? How can they be fixed? KO: Yes, we need to do more education at an early age. I talk about a concept of debt and the concept of wealth or you’re going further into debt and losing money. If you find yourself in a negative number you absolutely have to change your lifestyle. The time to start talking about money with your children is never enough.

MP: Can you apply a business perspective to personal finances? KO: Yes and no. Basically the 90 day number applies to governments, businesses and people. You need to understand you can’t live beyond your means. It doesn’t matter who you are. It’s the essence of life. I consider money a family member; it sits at the dinner table with us. That’s how you should embrace what money is. It’s ubiquitous; it’s always there, it’s your greatest ally or it’s your worst nightmares and enemies. Many people find later in life money ruins them; they never figure it out and find themselves in horrific debt, which is a terrible place to be in your 50’s, 60’s and 70’s.

MP: What was the worst investment you have ever made and what did you learn from that mistake? KO: I’ve made many bad investments and I’ve made many good ones. I’ve learned that the most important lesson is diversification; I never bet the farm, I have never made an investment so large that if it fails I’m ruined. What I do is bet up to five percent of my portfolio on any one opportunity and hopefully it works. Diversification is the biggest lesson I’ve learned, from it I have a balanced approach. I do lots of ventures investing that ensuring I can manage if they go to 0. That’s the key, never bet the farm.
Beginning to manage your finances can seem like a daunting task. If you can **plan to budget, save, and invest**, you’re one step closer to financial freedom.

**Achieving stability**

For some people, the words budgeting, saving and investing bring an image of humming along at a desk, pencil in hand, working out numbers and complex calculations. This is one way, but new software, apps and online calculators have made things a lot easier—and faster—giving you more time to enjoy your money, rather than stress about it.

Your “wants” will be the areas to track that help you budget, save and invest. Everything you have to support your living, like groceries, and things you want, like tickets to a concert. Your “wants” will be the areas to target for money you can use to pay down debts or increase savings. Then, list all your debts and the interest rate you’re paying on each of them. Make it a priority to pay off your debt as quickly as possible—this will save you money. Start by paying down the debt with the highest interest rate first. Paying more than the minimum payment on interest can make an enormous difference in your life.

**A budget shouldn’t scare you. It’s a basic tool that will help you get a clear picture of your finances; how much money you earn, you spend, you owe and you save. You can do a budget on paper, in a spreadsheet or online. There are lots of different resources available to help you get started—and keep going.**

**Budgeting**

**Borrowing**

**Investing**

**Three facts**

**1. Spending $2.50 a day on coffee means you’ll lose $912.50 a year.**

**2. Saving $250 a month for 40 years could give you savings of $260,917. Saving the same amount for 30 years may result in $188,615. (calculated at an interest rate of 3.5 percent).**

**3. Your investment risk can be reduced when you choose a diversified portfolio of investments. A registered professional adviser can help you determine which investments are right for you.**

**Saving**

**Investing**

**Three steps to navigating challenges**

**1. Keep a spending emergency to another. Instead of being pushed from one saving lets you make choices, like personal habits, values and emotions. Building your savings doesn’t mean you have to do without the things that are important to you. By saving on a regular basis, you’ll be prepared for emergencies and large expenses. To make it easier, you have to get automatic—transfer money from your checking account to your savings account with every paycheck so you don’t forget.**

**Investing**

Investing can be complex and it often has risks. The choices you make about investing will affect how much money you have, when you have it and what you can do with it. When you make investment decisions, you need to be told information and consider factors like risk, rate of return, effects of inflation, fees and taxes. Remember that other factors may affect your financial choices, like personal habits, values and emotions. Nobody else will care as much about your financial goals as you do. You may need financial experts to help you invest—but only you can take the first step.

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It is never too early to engage youth in financial discussions. If schools and parents work from a unified platform, financial literacy is not far away for future generations.

When it comes to helping young Canadians develop their financial literacy, Canada’s banks know there is much to be done. Young Canadians are faced with financial decisions every day in how they manage their day-to-day expenses on a limited income. They are also facing decisions about saving for post-secondary education and how to manage their budget as they become more independent. These decisions can inhibit your chances of mortgage approval and that is very difficult to unwind after the fact,” he said. “Just because the bank says you qualify doesn’t mean that you’re working with a financial planner who can help you clear up what those numbers mean for you. When emotions set in it’s very hard to see the logic.”

Plackett believes that this sort of pragmatic, emotional approach is imperative when looking for a mortgage that suites a specific set of needs. “There’s nothing worse than getting involved in a transaction that is very difficult to unwind after the fact,” he said. “Just because the bank says you qualify doesn’t mean that you can afford it. That’s one of the biggest misconception: qualification and affordability are two completely different things.”

Understanding the process behind mortgages

Which choice is right for you?

F or most people, getting a mortgage is the biggest financial commitment that they’re likely to ever make. It can be a complicated endeavor: The mortgage sector is complex, with a vast number of varying products and services available, all of which need to be considered. Getting the mortgage that suits your specific situation is crucial in ensuring your financial stability in the long term.

Looking at the options

“Before even getting to the point of figuring out what sort of financing you need, you must do a review in terms of what you need in a house: location, size of home and type of home,” explained Mark Salerno, Corporate Representative, Canada Mortgage and Housing Corporation. “You really need to think as much as possible about the types of housing options. That’s an important pre-curse to the next step: determining if you are financially ready.”

A mortgage lender will then thoroughly examine your financial situation. If there’s part of your financial history that you think may inhibit your chances of mortgage qualification, it’s best to be open from the outset. “It’s a matter of doing things methodically, the lender will want to know all of your history,” said Salerno. “You shouldn’t try to hide anything. If anything, get it on the table early and then your lender can help guide you through to qualification.”

Financial risk

When choosing a type of mortgage, it’s important to consider the level of financial risk that you want to take. “Taking a risk, and opting for a variable rate mortgage may save you a large amount in interest payments, but if you work on a tight, fixed income, it may be best to play it safe.”

“Do you get the interest rate fixed or variable?” That really comes down to risk tolerance,” said Salerno. “It’s fixed, you know that for 5 years you’re never going to have to worry about that interest rate going up. On the other hand, the variable rates have tended to be lower than the fixed rate in recent years.”

Remove emotion

Certified Financial Planner, Scott Haskett, believes that seeking the assistance of a qualified third party before approaching a lender can help to keep the property buying process sensible and financially realistic. “The most common mistake that people make is that they get emotional,” he said. “Unfortunately, buying a house is an emotional decision, that’s why you have to make sure that you know your numbers going into it, and that you’re working with a financial planner who can help you clear up what those numbers mean for you. When emotions set in it’s very hard to see the logic.”

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A collaborative effort

Young people who are well informed and able to manage their own finances can have a positive impact beyond their individual situation. In a study conducted by BMO, 96 percent of parents believe that teaching kids about money is key to a healthier financial situation. According to a survey conducted by Scotiabank, parental encouragement was an important trigger for adults to start investing and when asked if they could do it all over again, 84 percent of Canadians over 55 said they would begin investing earlier.

Providing the necessary tools must be a coordinated effort among schools, parents, government and financial institutions. Parents can play an important role by talking to their children about financial matters. According to a survey conducted by Scotiabank, parental encouragement was an important trigger for adults to start investing and when asked if they could do it all over again, 84 percent of Canadians over 55 said they would begin investing earlier.

Financial literacy in schools

Today, governments are recognizing the importance of financial literacy and are moving to include it in the school curriculum. In Ontario, financial literacy is being integrated into grades 4-12. In British Columbia, financial literacy has been included as a component of a mandatory Grade 10 course since 2004. Canada’s banks are working with governments and non-profit organizations to develop resources and deliver programs and services to young people. Working with the Financial Consumer Agency of Canada, the Canadian Bankers Association developed YourMoney, a resource delivered by local bankers in classrooms across Canada. Volunteers from Canada’s banks have also worked with Junior Achievement and the Canada Foundation for Economic Education to develop and deliver financial education in schools.

Developing good money skills is crucial for young people and working together with governments, educators and non-profit organizations, Canada’s banks are proud to be part of a collaborative effort to strengthen financial literacy right across the country.

TERRY CAMPBELL
editor@mediaplanet.com

MORTGAGE BIZ article page 27

A sponsored feature by MediAplAnet4  ·  MAy 2013

Understanding the process behind mortgages

Which choice is right for you?

For most people, getting a mortgage is the biggest financial commitment that they’re likely to ever make. It can be a complicated endeavor: The mortgage sector is complex, with a vast number of varying products and services available, all of which need to be considered. Getting the mortgage that suits your specific situation is crucial in ensuring your financial stability in the long term.

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it because they are not exporting it. Most people spend a lot of money renovating a kitchen but will leave the basement unfinished. It's better to finish the entire house and just a re-done kitchen. Then to finish the entire house and just a re-done kitchen. Then

■ MP: Are there types of reno-
vations people can do them-
themselves to save money and
when should they consult ex-
perts?
PB: Ask yourself this question: Do

■ MP: Other than great rates,
what are some things people
should look out for in mort-
gage options?
P3: When getting a new
property, be weary of
perpetual payments and
perpetual payments each year will
you cost of thousands in interest.
It doesn't cost you anymore, it's just
don't do it. You know you're
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level of income, it's not a wise
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can't even put the
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you are setting up for failure if
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■ PB: Our show gives us tremendous
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good contractor.” We were pre-
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■ PB: Everyone is afraid of lenders,
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Every investment carries some risk. In general, investments that offer higher returns, like stocks or bonds, carry a greater chance that you can lose some or all of your money. Lower-risk investments like GICs or savings bonds may offer a guaranteed return, but you may not make enough to reach your goals. Here are 3 steps to help you navigate the world of risk and return:

1. Know your risk tolerance
   - Start by clearly defining your goals, and make sure they're realistic, specific and time-based. If your goal is long-term, like retiring in 20 years, you could choose to take more risk with your investments since you have more time to recover potential losses. For a short-term goal, like a vacation in 6 months, you might choose a lower-risk investment so that your money is there when you need it.
   - How much return do you need to meet your goals? If achieving that return means taking on more risk than you're comfortable with, you may need to adjust your goals — or find a way to save more, so you can take less risk.

2. Spread the risk
   - Not all types of investments do well at the same time. If you keep all your savings in one investment and it performs badly, you could lose everything. By diversifying your investments across different asset classes like cash, fixed income and equities, you stand a much better chance of smoothing out the market's ups and downs.
   - Consider diversifying across different industry sectors, too. Some are riskier than others and react differently to changes in the economy.

3. Rebalance over time
   - Your asset allocation, or how much you invest in each class of investments, is key. This depends on your goals, time horizon and risk tolerance, but most importantly, it should change over time along with your needs.
   - For example, if you've just started your first job, you may not have a lot to save, but you likely have a lot of time to save towards your goals and may be able to take more risk. As you approach retirement, protecting your savings may become more of a priority — and so might a lower-risk approach.
   - Working with a qualified financial advisor can help you find the right balance, but the choice starts with you and figuring out how much risk you can take and still sleep at night.

For investing in bonds
- When interest rates rise, bond prices fall. When interest rates fall, bond prices rise.
- There is the risk that the return you earn on your investment doesn't keep pace with inflation. You'll still get your principal back when your bond matures, but it will be worth less in today's dollars.
- A credit rating can provide information about an issuer's ability to make interest payments and repay the principal on a bond. If you buy bonds from a company or government that isn't financially stable, there's more of a risk you'll lose money. This is called credit risk or default risk. Sometimes, the issuer can't make the interest payments to investors. It's also possible the issuer won't pay back the face value of the bond when it matures.

Insight for navigating risk and return

3 Steps for Navigating Risk and Return

Where Do You Keep Your Savings?

Canadians' savings patterns have shifted dramatically over the past two decades. In 1990, people kept 68% of their savings in deposit instruments (such as bank accounts) but by 2011, this had dropped to 39%. In 2011, people kept 31% of their savings in investment funds, up dramatically from 6% in 1990. At the end of 2011, forty-two percent of RRSP assets were held in investment funds.

A Balancing Act

This chart contrasts the percentage of savings that Canadians keep in deposit instruments (such as bank accounts) and investment funds. In the late-1990s, there was a major shift, as people became more aware of the benefits of investment funds. This trend has now stabilized. During market downturns, people tend to place a slightly larger portion of their savings in deposit accounts, but investment funds continue to play a substantial role in the financial lives of Canadians.

Source: Investment Funds Institute of Canada