No.2/May 2013

MEDIA PLANET

FINANCIAL LITERACY

The Property Brothers
Building equity in your home

Engaging youth
Our common goal

IT'S NEVER TOO EARLY TO START PLANNING

Financial Expert, Entrepreneur, Author of *The Cold Hard Truth on Men, Women and Money*, and colourful television personality, Kevin O'Leary gives insight on how to gain control over your financial situation.

PHOTO: CBC

Mediaplanet: In your book *The Cold Hard Truth on Men, Women & Money*, you reference the great financial values your mother passed along to you. What would you recommend to the modern parent who is trying to instill similar values in their children?

Kevin O'Leary : My mother instilled values that basically say money is going to be a 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. Her concept was basically to not spend too much, mostly save and invest savings. So when you're in your mid 30's or 40's you're out of debt and you're starting to build a nest egg; it's a very pragmatic approach to life.

MP: What budgeting 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 then and there. There is no way on earth you can sustain losing money every 90 days.

> "You need to understand that you can't live beyond your means. It doesn't matter who you are. It's the essence of life"

MP: What advice would you give to someone who is just getting their finances on track and finally has some money to invest?

KO: There are many good advisors, lots and lots of people who can help. There are some very basic rules. In my view you need to own a portfolio in half bonds and half stocks; everything should be generating a dividend or interest, I don't own any securities that don't. No more than five percent in any one stock and no more than 20 percent in any one sector. If you do that you will be fine. You'll generate anywhere between five and seven percent per year, never spend the principle only the interest and adjust your lifestyle accordingly. These are very simple basic rules and if you adhere to them life is a beautiful place. But if you don't you put a tremendous amount of stress on yourself and your family and often it 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 thesis where you start teaching children about money at age 5. What's good about it, what's bad about it, the concept of debt and the concept of time and money. So when children work, they get paid, or when they use their time wisely they are rewarded financially. I think we have not done a very good job in society. We teach them about math, geography, sex education and not money, how stupid is that? I think people have ignored it for a long time; that they assume it's something everyone learns or gets from osmosis just by being in society. A bad relationship with money starts early in life; the time to start talking about money with your children is never soon enough.

MP: Can you apply a business perspective to personal finances?

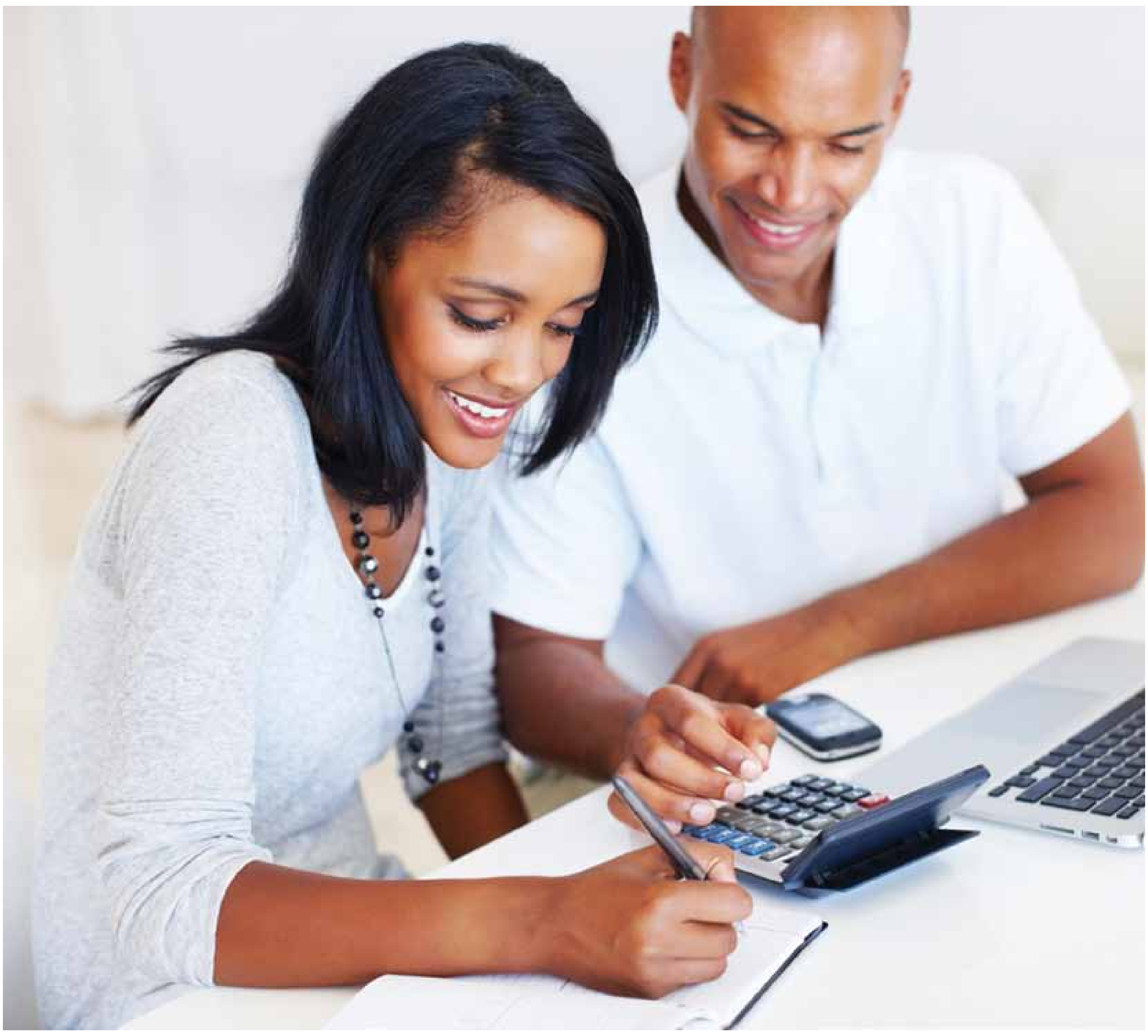
KO: Yes and no. Basically the 90 day number applies to governments, business and people. You need to understand you can't live beyond your means. It doesn't matter who you are. It's the essence of life. I consider money a family member; it sits at the dinner table with us. That's how you should embrace what money is. It's ubiquitous; it's always there, it's your greatest ally or it's your worst nightmare and enemy. 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 approached. I do lots of venture investing that I ensure I can manage if they go to 0. That's the key, never bet the farm.

GEORGE BAILY
editorial@mediaplanet.com

CHALLENGES



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 hunkering down 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.

LUCIE TEDESCO
Deputy Commissioner, Financial Consumer Agency of Canada

Budgeting

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. Keeping track of your own money can make an enormous difference in your life.

Where to start? First, record all your spending so you know where your money goes and where you can make cuts. Next, divide your expenses into two categories: things you need, such as 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 bills can make a big difference in the amount of interest you pay and how long it takes to pay off your debts.

3
THREE FACTS

That will help you budget, save and invest

1. Spending $2.50 a day on coffee costs you $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 $158,603 of savings (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 advisor can help you determine which investments are right for you.

Saving

The earlier you start, the more you'll save. Saving lets you make choices, instead of being pushed from one spending emergency to another.

We sometimes have trouble saving since our choices are affected by powerful forces like emotions, habits and other behaviours. 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, have your bank automatically transfer money from your chequing account to your savings account with every paycheque 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 get solid 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.

LUCIE TEDESCO
editorial@mediaplanet.com

WE RECOMMEND

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Mark Salerno outlines the best mortgage options to eliminate financial risk

"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."

Three steps to navigating risks and return p. 6
Know your risk tolerance

MEDIA PLANET

FINANCIAL LITERACY
SECOND EDITION, MAY 2013

Publisher: Brandon Cleary
brandon.cleary@mediaplanet.com
Lead Designer: Alana Giordano
alana.giordano@mediaplanet.com
Designer: Anna Staffansson

Contributors: George Baily, Terry Campbell, Tom Hamza, Kevin O'Leary, Joe Rosengarten, Scott Plaskett, Mark Salerno, Drew Scott, Jonathan Scott, Lucie Tedesco

Photo credits:
Cover top picture: Courtesy of W Network
Unless specified: iStock.com

Managing Director: Joshua Nagel
joshua.nagel@mediaplanet.com
ProductionManager: Maggie Ritchie
maggie.ritchie@mediaplanet.com
Business Developer: Martin Kocandrle
martin.kocandrle@mediaplanet.com

Distributed within:
Toronto Star, MAY 2013
This section was created by Mediaplanet and did not involve the Toronto Star or its Editorial Departments.

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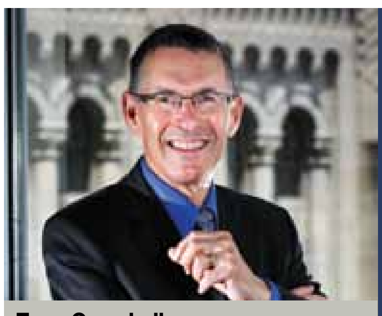
INSIGHT

FINANCIAL LITERACY FOR YOUTH IS OUR COMMON GOAL

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 have a lasting impact on a young person's financial future. According to a study conducted by the Investor Education Fund, only four out of ten students feel they are somewhat or very prepared to manage their personal finances after high school.



Terry Campbell
President, Canadian Bankers Association

> "Young people who are well informed and able to manage their own finances can have a positive impact beyond their individual situation."

A collaborative effort

Young people who are well informed and able to manage their own finances can have a positive impact beyond their individual financial situation. In a study conducted by BMO, 96 percent of parents believe that teaching kids about money is key to a healthier economy. Everyone has a role to play if we are to ensure that young people have the tools they need to navigate this complex world of financial decision-making.

Providing the necessary tools must be a coordinated effort among schools, parents, governments 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, 44 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 Canadian 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
editorial@mediaplanet.com

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 endeavour. 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.

Mark Salerno
Corporate Representative, Canada Mortgage and Housing Corporation

Scott E. Plaskett
Senior Financial Planner & CEO, IRONSHIELD Financial Planning

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 precursor 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. "If 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 Plaskett, believes that seeking the assistance and advice 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 home is a very 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 be clear on what those numbers mean for you. When emotions set in it's very hard to see the logic."

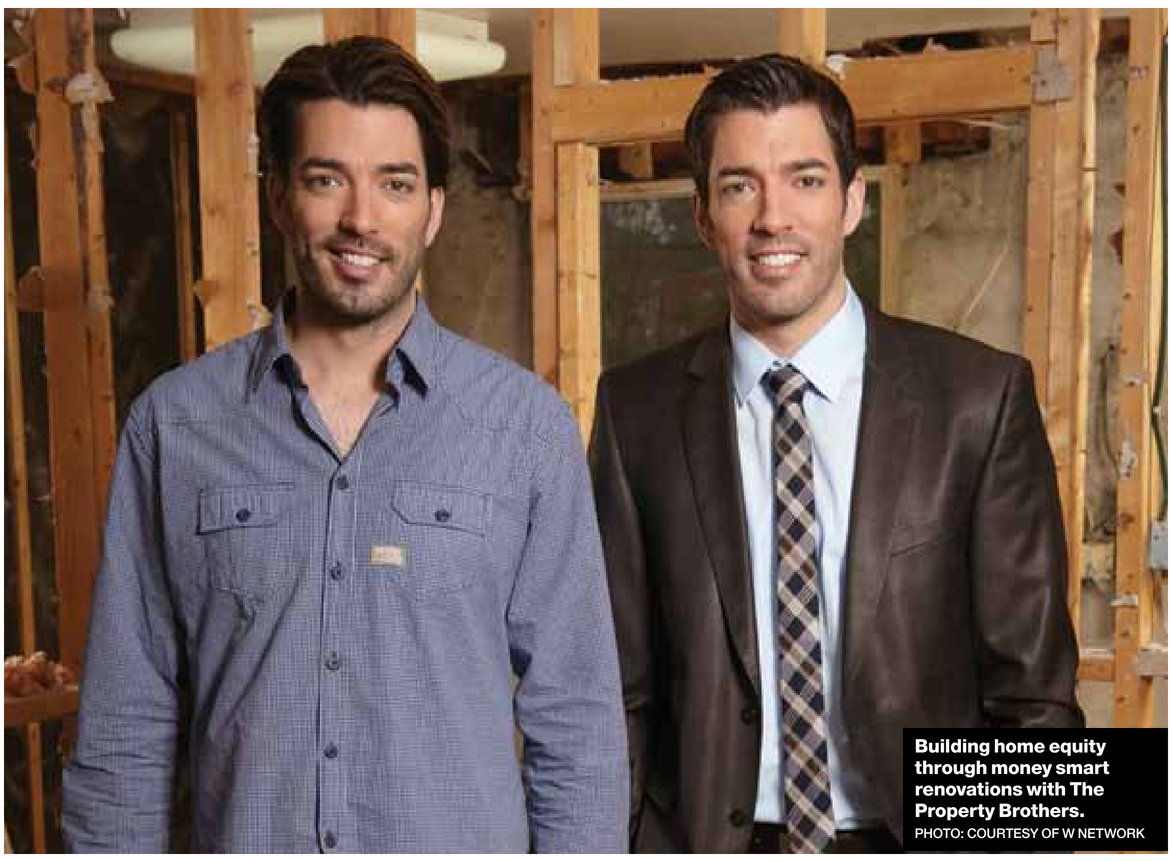
Plaskett believes that this sort of pragmatic, unemotional approach is imperative when looking for a mortgage that suits a specific set of needs. "There's nothing worse than getting involved in a transaction that is very difficult to unwind after the fact," he said. "Just because the bank says you qualify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

JOE ROSENGARTEN
editorial@mediaplanet.com

INSPIRATION

BUILDING HOME EQUITY WITH THE PROPERTY BROTHERS

New episodes of *Buying & Selling* air Tuesdays at 8 p.m. ET/PT and you can also catch *The Property Brothers* on W Network.



Building home equity through money smart renovations with The Property Brothers.
PHOTO: COURTESY OF W NETWORK

Mediaplanet: When renovating a home, are there specific areas you can focus on that would increase the value of the home over another area?

Property Brothers: The most important thing we say to people when they're looking to do a renovation is to understand what buyers in that area are looking for. For example: In a first time buyer community there is no sense in spending a bunch of money on granite counters because a buyer down the road won't pay extra for it because they are not expecting 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 few details on the kitchen. Then buyers will see a completely renovated house and not just a re-done kitchen.

MP: Are there types of renovations people can do themselves to save money and when should they consult experts?

PB: Ask yourself this question: Do I know how to do that? If the answer is no, then it's time to bring in a professional, or at least hop online and see what is involved. Anytime you're dealing with electrical, plumbing or structural problems, you want to make sure an expert is there. You want to make sure you have permits; people think they can do it for cheaper without permits. The city is not there to be a pain in the butt; they are there to make sure everything is done to code. You are setting yourself up for failure if you don't get permits.

MP: Can your show The Property Brothers change people's perspective of home renovation by setting realistic standards and practices to follow?

PB: Our show gives us tremendous reach, when we tour around the country, we hear those stories all the time, "you guys really saved us and taught us how to find a good contractor." "We were prepared, cautious and approached it without emotion and made a better investment." If you're selling a home yourself, it comes down to simple economics. It's supply and demand; the more people you can reach with this product, the more likely you are going to get a better offer. If you're working with a professional, the MLS (multiple listing services) has the best reach out there. On average, homes listed with an agent sell for more; the cost difference is pretty much what you're paying to do it yourself.

MP: Other than great rates, what are some things people should look out for in mortgage options?

PB: When getting a new property, bi weekly payments and lump sum payments each year will save you tens of thousands in interest. It doesn't cost you anymore, it's just a call to your bank; but people still just don't do it. If you know you're not going to have a certain level of income, it's not a wise decision to get a bigger mortgage, cause what happens if you can't make the payments? If your real estate agent is not reviewing this with you, something is wrong. Talk to your accountant; make a list of must haves and what you can live without. That will give you a good picture of what you can afford. It is important to create a budget and stick to it, it's easier to maintain the budget then it is to create one.

MP: What should first time homeowners consider when buying a home?

PB: Everyone is afraid of lenders, especially first time home owners. They are afraid to talk to the bank and tell them their income. Something we really stress is that you can have a great relationship with your bank and they want your business. They will help you find the best option, if it's a line of credit mortgage, a conventional mortgage, a high ratio mortgage; there are different types of lending and they will find the best package for you.

MP: How does credit factor into the decision to buy a home?

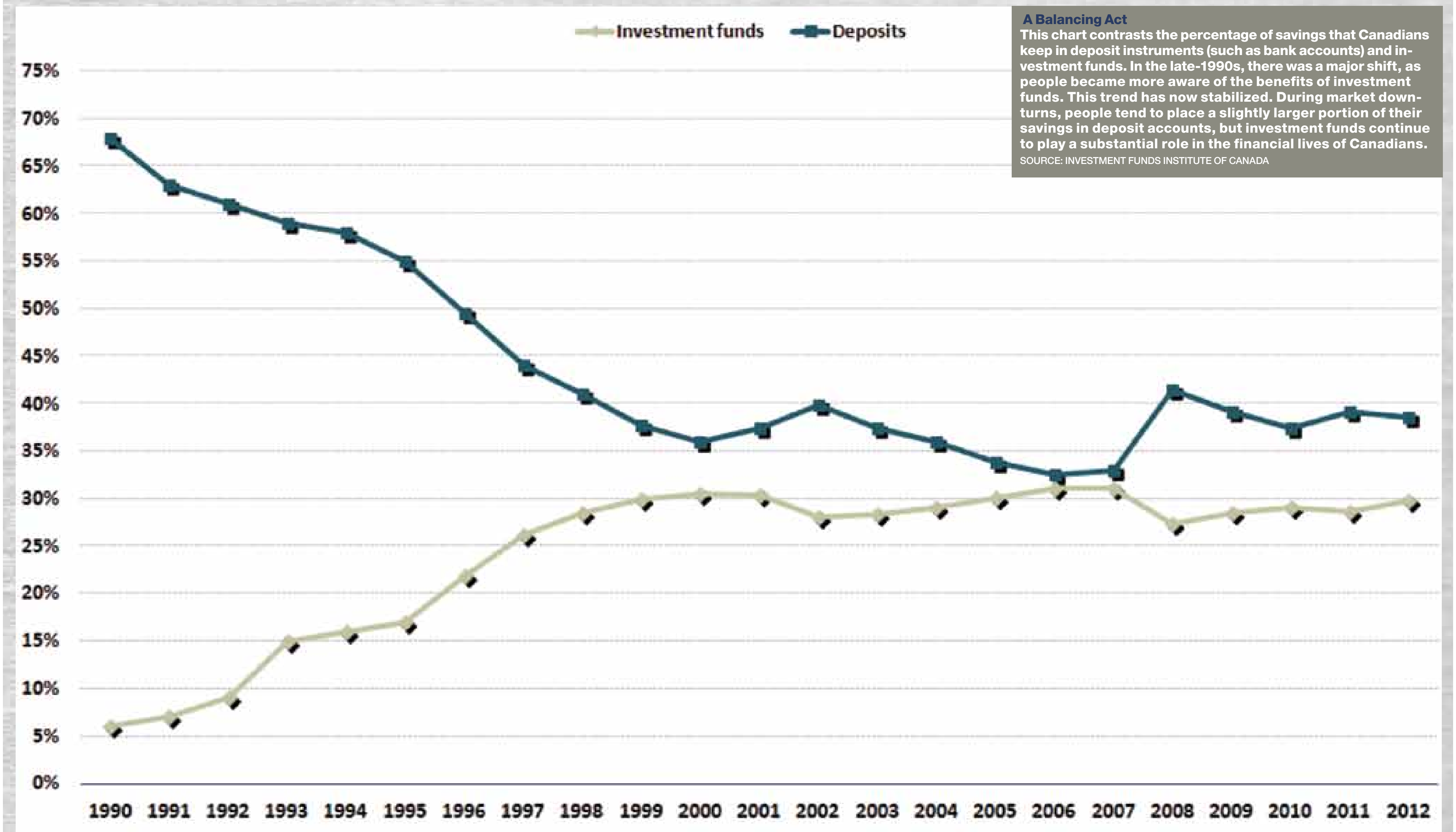
PB: Be aware of your credit situation. If you want to get the best rates, you need to make sure your credit is the best it can be. Understand what is on there, there may be mistakes on there. If you need to strengthen your credit you can work on it. Even within six months you can strengthen your credit to ensure you are getting the best rate. Home owners love to say there credit is perfect; 99 percent of the time isn't. Everyone has some sort of debt, the way you carry that debt can make a big difference. There are certain ways to down pay your debt which can help you qualify for more of what you need.

Follow them on Twitter
@MrDrewScott
@MrSilverScott
@PropertyBrother

editorial@mediaplanet.com

INSIGHT

3 STEPS FOR NAVIGATING RISK AND RETURN



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

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:

Tom Hamza
President, Investor Education Fund

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.

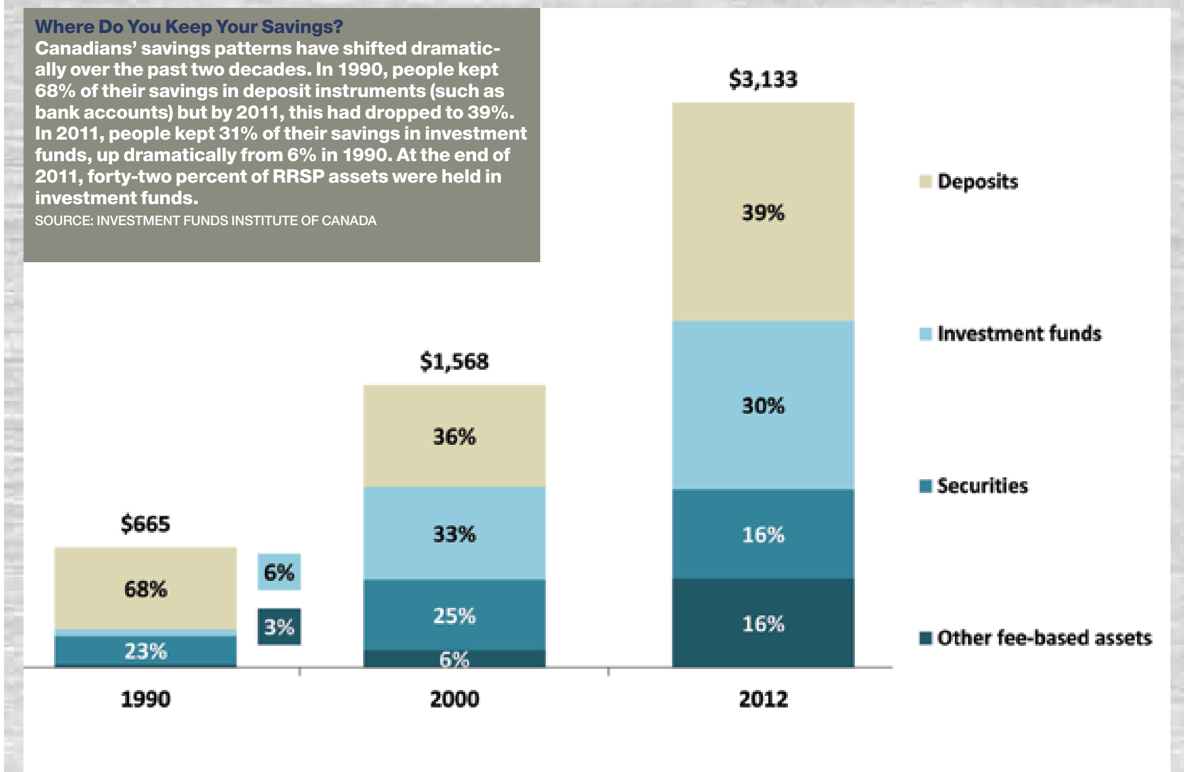
3. Rebalance over time

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 adviser 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.

TOM HAMZA
editorial@mediaplanet.com



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.
SOURCE: INVESTMENT FUNDS INSTITUTE OF CANADA

SOURCE: INVESTOR ECONOMICS, MUTUAL FUND MERS AND COST TO CUSTOMER IN CANADA: MEASUREMENT, TRENDS AND CHANGING PERSPECTIVES, 2012.

TIPS

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.

SOURCE: INVERSTOR EDUCATION FUND
editorial@mediaplanet.com