Be Clear On Your Goals
–Avoid Wasting Capital
–And Have Fun With Your Money

Warren MacKenzie

You may have heard the story of the elderly gentleman on his deathbed looking back over his life. He'd spent about 80% of a large inheritance on liquor, women and the racetrack, but he was sad because he felt he had just wasted the rest of his inheritance!

We all have different objectives and different things that give us happiness, but if we don't use our capital to increase our happiness, it's being wasted. If we've not thought carefully about long term goals, possibilities, options and our 'bucket list'—we may be losing an opportunity and in the process 'wasting' our capital.

Individuals who had clear goals when they were in their 20s and 30s usually have had successful careers and now find themselves financially secure at age 65. In most cases the goals formulated years ago had to do with careers and achieving financial security. So if you're now in retirement and you have substantial wealth – it's time to revisit your goals.

Here is a goal that most people will agree with: "I would like to manage my money wisely and do the things that will increase my happiness and the happiness of my loved ones."

If it makes sense to use one's money to maximize enjoyment, why don't we all do this? The reasons include: fear of running out of money, no sense of urgency, not being aware of the options, inability to make a decision, disagreement between spouses, wanting to delay the payment of income tax, and simply a failure to think things through on a logical basis.

What's the result of failure to take charge and use capital in the way that will maximize your happiness? The result is that the estate will probably be larger—and your heirs will get to spend more money. Rest assured someone will spend the money! And there's nothing wrong with this—if this is what you want. But if your children's happiness is an important goal, there may be a better way. In many cases the better way is to give money to the children in stages in their 20s, 30s and 40s so they can use it to help achieve their personal and career goals. This gives them an opportunity to make their mistakes and learn wealth management skills. It gives parents an opportunity to assess whether or not the funds are being used responsibly.

Percy Ross—famous for having a lot of fun giving away millions—said "He who gives while he lives also knows where it goes."

We all want our children to be happy. Generally people are happy when they have a good self-image and self-confidence, a sound work ethic, good values, a meaningful relationship, a healthy lifestyle, work they enjoy, and when they're on track to meet their own goals. If they have these things they'll have a happy life, with or without a large inheritance. Without sound values and self-confidence a large inheritance may do more harm than good.

What do a hunting rifle, a fast motorcycle and a large inheritance have in common? Properly used, these things can all be used for enjoyment—but improperly used they can create misery and regret for the rest of one's life. It's important before giving a person a rifle to explain safe practices, and similarly, it's important to teach people how to manage wealth. Few things cause greater regret than to receive a fortune and then lose it because of unwise wealth management practices.

Everyone's first goal and use of capital should be financial independence and certainty that personal needs will be looked after for the rest of one's life. A financial plan shows how much capital is required for goal #1. The second goal and use of capital should be to address the 'family legacy' issue so that you leave family members whatever amount you believe is right for them. Soul searching and discussion is required for goal # 2.

If there is going to be a surplus after dealing with your personal needs and the family legacy then you have an opportunity to have some fun spending or giving away the surplus. This is the capital that is wasted if not spent or given away. When a wealthy man died someone asked "How much did he leave behind?" A wise man answered "He left it all."

This surplus can be used to fund your 'bucket list' and can be spent on whatever will increase your happiness. It might be additional travel, a more luxurious lifestyle, more gifts to the children, a nicer home, a simplified portfolio, going back to university, more support to your favorite charities or donations to causes you want to support. It's worth noting that studies show that the happiest people on the planet are those who devote their time, money and energy to helping others. The most miserable people are those who are totally focused on themselves and their desire to get more.

It may be fun to manage capital wisely and watch it grow, but you also have a responsibility to ensure that when you're gone those who receive the capital also have the ability to manage and use it wisely. Unfortunately, receiving a large inheritance doesn't always give the recipient a happier life. There are reports that about 70% of the big lottery winners are bankrupt within seven years and they live with regrets for the rest of their lives. Based on my experience I feel that in about 50% of cases the large inheritance does more harm than good. This potentially negative outcome could be avoided with 'wealth management' education.

One reason some successful people limit the amount they leave their children is because they take pride in what they've been able to accomplish and they want their children to be able to experience the same feeling. Part of the good feelings come from overcoming difficulties. These parents who are proud of their accomplishments know that giving children everything means they deny them the opportunity to enjoy the same pride of accomplishment that comes from overcoming challenges.

How to solve this problem? There is no simple answer, but as Scott Fithian writes, "If you leave a child with nothing but sound values he or she will do just fine; if you leave them with sound values and a large inheritance they may accomplish great things, if you leave them with a large inheritance without the sound values, you're just asking for trouble."

Wealthy individuals should have a 'goals-based' portfolio. This means the asset mix should be designed to take as much risk as necessary, but no more risk than necessary, to achieve stated goals. On the subject of investing the message is: (1) keep it simple; (2) insist on full transparency of all fees and costs; (3) work with people who hold themselves to the fiduciary standard; (4) have a detailed investment policy statement that allows you to hold your advisors accountable; (5) follow a disciplined rebalancing process—because the investment process is more important than the investment products; (6) use 'best-in-class' managers rather than 'in-house' managers; and, (7) be in control by insisting on a simple performance report which shows the rate of return compared to the proper benchmarks.

You should also have a discussion that clarifies not only your goals but also your values. A 'financial values' mission statement is a useful tool to help clarify what you want to do and why you want to do it. This mission statement answers questions your heirs may have about the reasons for your decisions and is expected to reduce the possibility of bad feelings among your heirs.

For information about the next workshop which helps attendees clarify goals, consider different options, assess the pros and cons of different choices, and create a 'values' mission statement, please call Warren MacKenzie at 416 640 0550. Warren MacKenzie, CPA,CA is the founder of Weigh House Investor Services and a Stewardship Counsellor with HighView Financial Group. Email: warren.mackenzie@weighhouse.com.