



Financial Planning for the Self-Employed

Prepared by

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Private and Confidential

1 Signature Financial Security

Financial Security Advisor Mike Robinson is the principal of Signature Financial Security, an independent, professional wealth management and retirement planning firm specializing in working with successful affluent and self-employed individuals. Having spent several years as an educator and advisor to financial advisors in the affluent market, Mike founded Signature Financial Security in 2006 and is now based in Calgary, Alberta.

Because Signature Financial Security is independent it means he is able to search the marketplace for the most suitable solution for clients, whether that is for investment management options or other financial vehicles. As an independent advisor Mike uses Quadrus Investment Services Ltd. as his back office dealer, which is ultimately owned by Power Financial. Quadrus stays in the background and is responsible for providing trading capabilities, custody and trustee work, and compliance. Because Quadrus provides custody of assets, in the event that something happens to Mike, client assets are safe and secure on the books of Quadrus.

The Signature Difference

When working with Signature Financial Security you are working with someone that other financial professionals turn to for their own advice. Prior to founding Signature Financial Security, Mike served as a Private Wealth Counselor, which is the role of the "advisor to the advisor." He worked as a consultant and educator to some of the best financial advisors in the business in helping those advisors with their affluent client practice. Among current clientele at Signature Financial Security, Mike advises a PhD in Investment Finance, an executive with the Alberta Securities Commission as well as a retired financial advisor. Mike is still asked to speak to other financial planning firms and is regularly consulted by professionals in the industry.

Comprehensive Financial Planning

As a Private Wealth Counselor, Mike worked exclusively with financial advisors and their affluent clients in providing customized investment plans. However, he learned very quickly that clients with more complex needs, such as those that are self-employed, need much more than an investment plan. While it is extremely important to know how and where to best structure investments, clients often need more sophisticated advice than that. Many clients need a complete financial plan that will outline their lifestyle in retirement, including sources of income, take into consideration risk protection, inflation, tax implications and take into consideration other variables such as sale of business, purchase of future property or new business ventures. *We specialize in creating a comprehensive plan that goes well beyond the investment strategy.*

2 A Financial Plan for the Self-Employed

As a self-employed individual your needs and issues are different from someone who is employed by a big company, and a financial plan that is designed for you needs to reflect those different needs:

- You likely have no pension plan.
- You likely do have RRSPs but you will also likely have significant assets outside your RRSP, and the growth on that money is taxed annually.
- You likely have money in your corporation, either for future business needs or for savings, and that money is also taxable.
- You may have a holding company with assets and you might maintain that holding company indefinitely.
- You have a business that may or may not be sold when you retire. You hope to sell it but there may or may not be a buyer.
- You have overhead –an office, a shop, employees, etc.

There are generally two fundamental parts to a financial plan that is suited to meet your needs. The first part is the overall financial analysis that should provide you with financial security and answer what's likely the most important question in this exercise: will I be able to do what I want to do financially, when I want to do it? The second part of the process is the implementation, which will address: How do I do it?

Both the financial security plan and the implementation plan go hand in hand. Often times too much focus is placed on the implementation, which deals with specific investment recommendations or risk protection strategies. While many of these ideas and strategies may be sound they should always be considered within the context of an overall plan. Conversely, a financial security plan without any implementation won't achieve the desired results.

The balance of this section will deal with key elements of the overall financial security plan, while the next section will deal with implementation. Included in your package is a sample financial security plan that you are free to keep and review. We will not discuss all elements here but let's touch on some of the key areas.

Net Worth

A fundamental component of a financial plan is a net worth statement. The net worth statement in your plan may not be as detailed as one your accounting firm might produce for you as it deals primarily with investment assets and general liabilities. However, this is of extreme importance because you want to see that number increase, regardless of whether it's because of increased assets or decreased liabilities.

Investment Summary

This component will project how your assets will grow over time, considering both growth and withdrawals. It will be able to project whether or not you will deplete your assets during retirement or if you will have 'excess' wealth. If there will be excess wealth, what implementation strategies can we employ that will perhaps improve your lifestyle, bump up your retirement date, or create a more tax-efficient and greater transfer of those assets to your beneficiaries? If we are depleting the assets, what steps can we take to improve that situation?

Cash Flow and Retirement Income Summary

This is an extremely important component of the plan as this is where we will project, on a year by year basis, where your income will come from and where it's going. Pre-retirement we can look at what sources of income are coming in and what proportion of that income is going to fund lifestyle needs and general expenses and what proportion is going towards investments and risk protection. More importantly, during the retirement years we can project where your income will come from. How much will come from RRSPs, government benefits or from investments? Will you be receiving dividends on business holdings or on other assets? Will you have a cash injection in your retirement year due to the sale of your business? Will you turn around and need to fund the purchase of a house in Mexico? What impact will all of these variables have on your retirement income?

Risk Protection

Financial plans will often deal with savings and retirement issues but will neglect risk protection. For self-employed people this is of particular importance since you have so many additional variables. Once a retirement plan is created, what would happen to that plan if you were unable to work for the next ten years? What would happen to your family if you were to die prematurely? What would happen to your *business* if you were unable to work for a period of time or if you were to die suddenly? While most people generally don't enjoy discussing these questions they are fundamental to protecting your financial security.

Flexible and Comprehensive

When it comes to money and finances everyone wants a guarantee, and I have one for you: as soon as your financial plan is completed it is guaranteed to be wrong. It's wrong because it assumes so many variables:

- It assumes you will sell your business and retire at a certain age.
- It assumes a specific savings pattern and specific rates of return.
- It assumes inflation rates and government benefit amounts and uses current legislation.
- Etc.

Because there are so many assumptions involved it's important that the financial plan you create and the program you use be comprehensive and flexible. You need to be

able to adjust the plan to reflect that you may sell your business for more or less than you hope to now, that you may earn greater or lesser rates of return on assets, that you may acquire a retirement property and sell your home in Calgary, etc. Your plan also needs to be comprehensive and be able to account for factors such as that fact that you may have a holding company indefinitely and will receive dividend income for life, that you will face inflation, that your different sources of income will have different tax rates, etc.

As you will see in your sample plan, there are more elements involved; however, I believe these to be amongst the most important. The bottom line is that this portion of the planning process should provide you with the answer to the question: "Will I have enough money to step away from my business, should I choose to, when I choose to?"

I will often hear from people at this stage that although they agree with the process so far that they are not yet ready to step away from the business and that may be at least another five to ten years. Note: This is when the planning is most important. If you wait until you are ready to retire, the plan will simply tell you what you are able to do with what you have. By planning now you can build towards what you want to do.

3 Implementation – Investment Management

When it comes to investment management you have a long list of options available, and it gets difficult to decide what's right. There are banks, trust companies and credit unions, mutual fund representatives, stockbrokers, real estate investment companies, etc. When I consider the investment management options available I ask one key question:

Would you rather invest the way someone with *ten thousand* dollars invests, or the way someone with TEN MILLION dollars invests?

Corporations, pensions and ultra high-net-worth investors look to *private investment counsel* firms to meet their long term objectives. As your wealth grows, so too do your options for investment management. At Signature Financial Security I provide access to private investment counsel firms, in a pooled fund format, for individual clients.

While the investment strategy is in a 'fund' format, this is very different from a *traditional* mutual fund approach. Pools that I provide for my clients are reserved only for affluent clients, carry low fees, have no loads or sales charges and are managed by investment counselors that have a personal vested interest in their investment performance.

By accessing investment counsel firms on a pooled fund basis we are then able to access multiple investment counselors for one client in one account with each managing a mandate that they specialize in. Some examples of investment counsel firms that I place business with include: Mawer Investment Management, Cardinal Capital, Dixon Mitchell, CGOV Asset Management and Phillips, Hager & North.

Minimizing Tax on Fixed Income Assets

The growth on non-registered assets is taxable each year. Fixed income assets, such as bonds, mortgages and GICs generate returns for clients in the form of interest income, which is fully taxable at a client's top marginal rate. The impact of this taxation can have a significant effect on a client's bottom line return or cash flow. Consider someone with \$1,000,000 invested in a bond portfolio that earns 6% return in a year. This represents \$60,000 of taxable income, which works out to over \$23,000 of tax.

There are more tax-effective options available! By utilizing a "corporate class" investment fund clients can invest in a fund that is 100% fixed income and never receive taxable distributions in the form of interest income. In most years there will be no taxable distributions at all, and in years where there are it will be in the form of either a capital gain or a dividend. This allows clients the opportunity to invest within their investor profile guidelines but save a significant amount of tax.

What does the 'typical' investment management account of Signature Financial Security look like?

- As a function of the financial planning process an asset allocation has been determined taking into consideration factors such as a client's age, tolerance for risk and volatility, time horizon and estate needs.
- The equity portfolio is managed by two to three private investment counsel firms with each managing a mandate they specialize in. For example, Cardinal Capital may manage the Canadian equity, Mawer Investment Management may manage the international equity and CGOV Asset Management may manage the world equity component.
- The fixed income portfolio will be invested in a corporate class investment fund consisting of bonds, mortgages, preferred shares and other fixed-income securities that will never generate any taxable distributions in the form of interest income. Annual taxable distributions will be in the form of either a capital gain or a dividend, if any.
- Overall fees are approximately 1.5% - 2.0% (depending on the amount of investable assets) and there are no loads or sales charges.
- The portfolio is monitored regularly and can be automatically rebalanced either annually, semi-annually or quarterly.
- The portfolio is reported on one consolidated statement showing all assets, activity in the account and any changes in value.

Professional investment management, low fees, no sales charges and lower taxes. That sounds like someone with TEN MILLION dollars, but it's available for clients with \$500,000 and over.

4 Risk Management –Beyond Investments

As I have already mentioned, there is much more to a financial plan than just investment management. By examining the entirety of a client's situation I am able to identify additional opportunities to reduce risk, save tax or improve their overall financial picture. Risk management is an extremely important component of any financial plan and without it can put your financial security in jeopardy.

When discussing risk management it doesn't necessarily imply catastrophic risk –it might, but it also might be the risk of paying too much tax or paying higher fees than necessary. Let's look at some prominent examples that might apply to you.

Risk of being unable to work

If your plan calls for a certain saving strategy, what would happen if you are unable to work for a period of time? You run a business with employees, an office, a shop and other overhead. What would happen to your business if you are unable to work? You could have a stroke, get in a car wreck or run into a tree while skiing. Are you the main driver of revenue? What if you can't go back to work at all? There are protection measures available that can provide an income or cash injection at times of disability, whether it is temporary or permanent.

Risk of unexpected death

What will happen to your family if you die unexpectedly? What will happen to your business? Will your spouse run the company? Is there a buyer who your spouse can sell the company to? Will they buyer have the money to buy out your spouse? If you have business partners, do you have a shareholder's agreement? Will they be in a position to buy you out or your spouse out in the event that you die or can't work anymore?

Implementing as an affluent individual

Affluent investors should know that there are financial vehicles designed and available specifically for you. By managing larger accounts financial providers are able to generate economies of scale that translate into reduced fees for you. There are very innovative programs and strategies available that are geared towards saving taxes, but are only valuable to and accessible by affluent people and the financial advisors who serve them. The implementation of your financial plan should involve strategies designed for affluent investors and not those marketed to the mass market.

5 Attached Appendices

Contents:

- Sample of a personal financial security plan
- The Signature Difference
- A copy of "Investing Outside In", which is the feature article in the February 2008 edition of Alberta Venture magazine. It outlines several key issues for affluent investors to consider. I was interviewed for this article and it refers to some of the points discussed here.
- A copy of "Adviser Blames Peers for Retirement Gaps".

6 Disclosure & Privacy Statement

I, Michael K. Robinson, o/a Signature Financial Security, am licenced for life and health insurance in the province of Alberta. I am also registered to provide investments in the province of Alberta.

I offer investments through Quadrus Investment Services Ltd. Quadrus is a wholly owned subsidiary of the Great-West Life Assurance Company, which is in the Power Financial group of companies. In no way does the ownership structure of Quadrus compromise objectivity as Quadrus is a full service mutual fund dealer and as a licenced representative of Quadrus I have access to fifty-seven different investment fund providers with no bias towards any of them.

I additionally have access to the following insurance companies' financial vehicles:

- Canada Life
- Manulife Financial
- Great-West Life
- Sun Life Financial
- Empire Life
- Equitable Life
- RBC Insurance
- AIG Insurance
- Industrial Alliance
- Transamerica Life, and
- Standard Life

In addition, I may offer certain banking products from Solutions Banking, which is a comprehensive suite of banking products provided by the National Bank of Canada.

No insurer or investment provider holds any ownership interest in my business, nor do I hold a significant interest in any insurance or investment provider.

I will be paid compensation by the financial institution that manufactures the financial vehicle you choose. I am compensated by a commission for most insurance vehicles at the time they are provided to you, and I may also receive renewal or service compensation for both insurance and investment vehicles. For certain financial vehicles I may receive a referral fee.

In respect of certain vehicles, the commission may be different than the standard commission scale provided by the company providing the financial vehicle. I will advise

you if this occurs. Any future increases in the commission scale will require your written approval.

I may also be eligible for additional compensation such as bonuses and non-monetary benefits such as travel incentives, and may be entitled to participate in a share purchase plan. This compensation depends on various factors such as the volume or retention of business I place with a particular company during a given time period.

I take the potential of a conflict of interest very seriously. At this time I am not aware of any potential conflict of interest, however; I will inform you of any situation that may arise in the future.

Protecting Your Privacy

Protecting the privacy of your information is important to me and to the companies whose financial services and vehicles I offer.

As a financial security advisor, I will create and maintain a client file for you. This file contains personal information related to you, which I'll gather in order to assess your financial situation, offer you financial vehicles and provide you with ongoing advice and service. I'll also keep records of our meetings and phone calls, and instructions that you give me in regard to the products and services that you've implemented, or might want to implement through me.

If and when you implement any financial vehicle or service through me, you'll complete specific application forms for each. These application forms will request personal information from you that the company offering the financial vehicle or service requires in order to underwrite or issue the vehicle and provide ongoing services to you and for other purposes as set out on the form. You'll be signing such forms to consent to the use of your information by the company for the purposes indicated on the form. From time to time, you may be required to complete additional forms to confirm your requests for changes in your products or services, or to initiate a claim or benefit. I may keep copies of these forms in your file and the company handling your request may also retain this information.

Your file is kept in my primary place of business. Access to information in your file is limited to me or persons I have authorized to act on my behalf when the information is required for the performance of the person's duties, to the companies I represent in providing, or seeking to provide, products or services to you, to persons you have granted access, and to persons allowed by law.

When a particular situation is warranted I may share personal information you have provided me to employees of the companies I represent in providing financial vehicles and services to you. This is only for the purpose of consulting with experts in various

fields of financial planning in order to provide the most suitable advice possible. Each of these individuals are bound to protect your privacy through their corporate policies, which are in accordance with current Privacy Legislation.

This Disclosure & Privacy Statement has been prepared by Michael K. Robinson of Signature Financial Security, and Michael K. Robinson alone is responsible for the accuracy.

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice. For specific situations you should consult the appropriate legal, accounting or tax expert.

Mike Robinson is an investment representative of Quadrus Investment Services Ltd.

Commissions, trailing commissions, management fees and expenses all may be associated with investment funds. Please read the prospectus before investing. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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