

Merrick Financial Inc.

Unbiased, professional and straight forward financial advice!

Financial Plan - Case Study



The Situation

The client, Wayne, makes a very good income (\$150k+) and is looking for peace of mind to make sure he is doing everything right financially to secure a sound present, future and / or early retirement. He is also in the process of buying a home and recently had a daughter with his partner. They are looking for advice of where to allocate their free cash flow (TFSA, RRSP or to real estate) and for an unbiased assessment of their investment setup.

Business and Personal Assets

Pre construction condo - net amount	\$250,000
Current condo (primary residence) - net amount	\$730,000
Cash	\$350,000
Vested company shares (His employer)	\$340,000
Total Net Assets	\$1,670,000

Goals

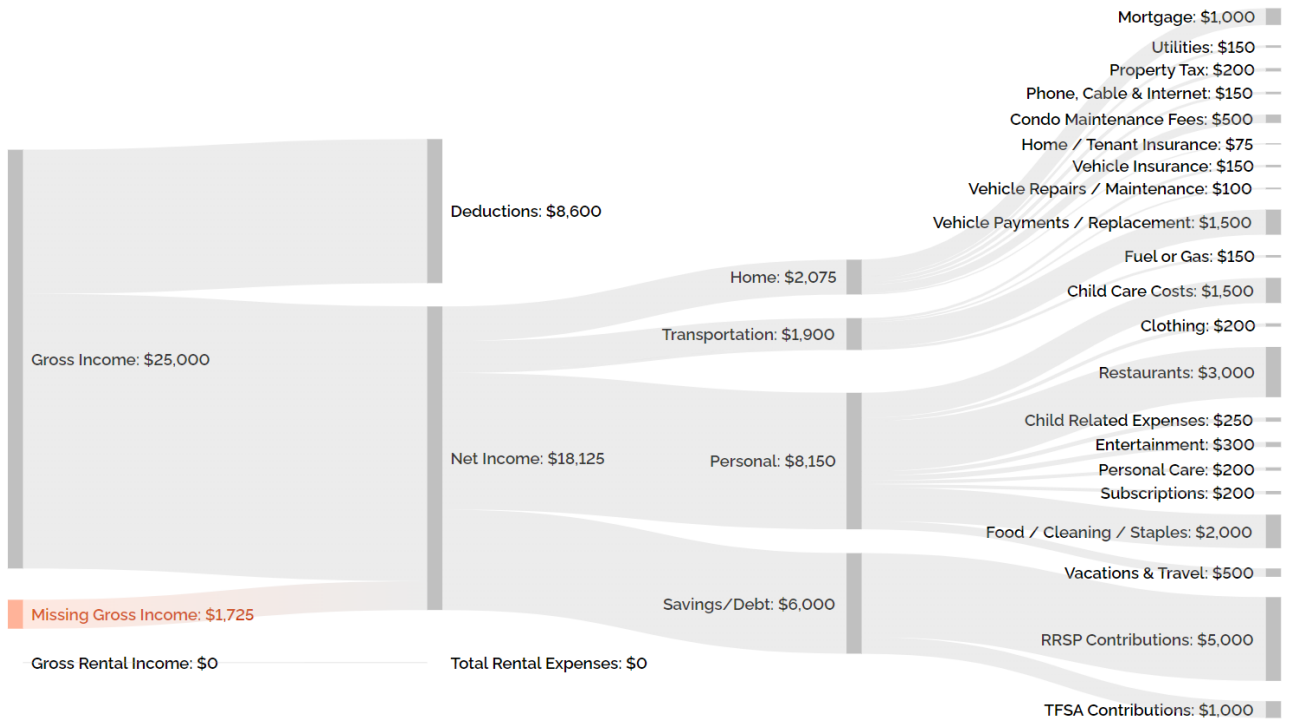
1. How much can I comfortably spend on a house?
2. What is the best way to save for my daughter's education?
3. How do I plan tax efficiently to maximize my assets? RRSP? TFSA?
4. Are all of my possible financial needs / risks covered?
5. Plan for an emergency fund

What follows is a very quick snapshot of the financial planning process. Every client's situation is different and this is for illustrative purposes only:

The Plan

Cash Flow

A big part of financial planning is determining where our money is going. We can then determine the households free cash flow and we can advise the client of the best place for it. This detailed picture can be eye opening for clients who don't regularly have a spending plan and is generally a positive experience. We can also determine your spending / savings rate which is very important for long term financial health.

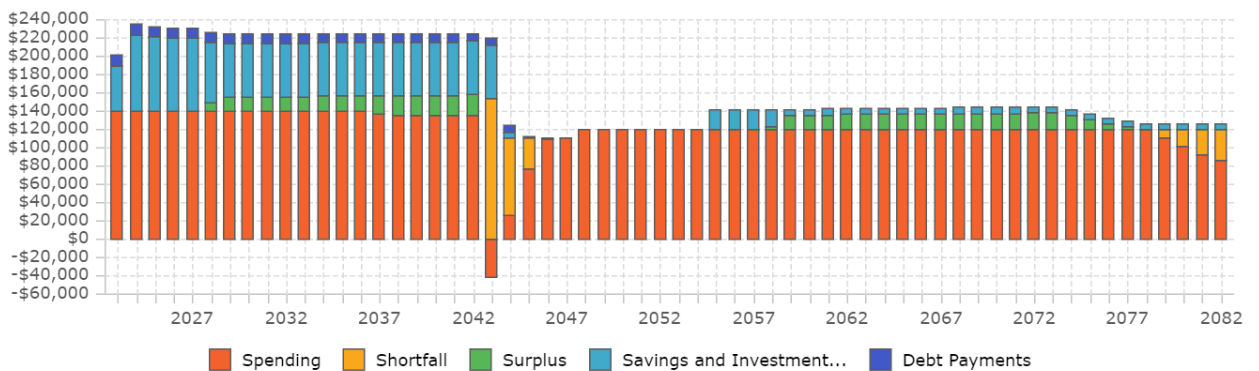


Spending

We can see that the household has a good amount of surplus cash flow each year before retirement. This is an important aspect of preparing for the future. We can also see that in retirement the spending rate drops substantially as there are no savings (turns to decumulation), debt payments and the kids have moved out.

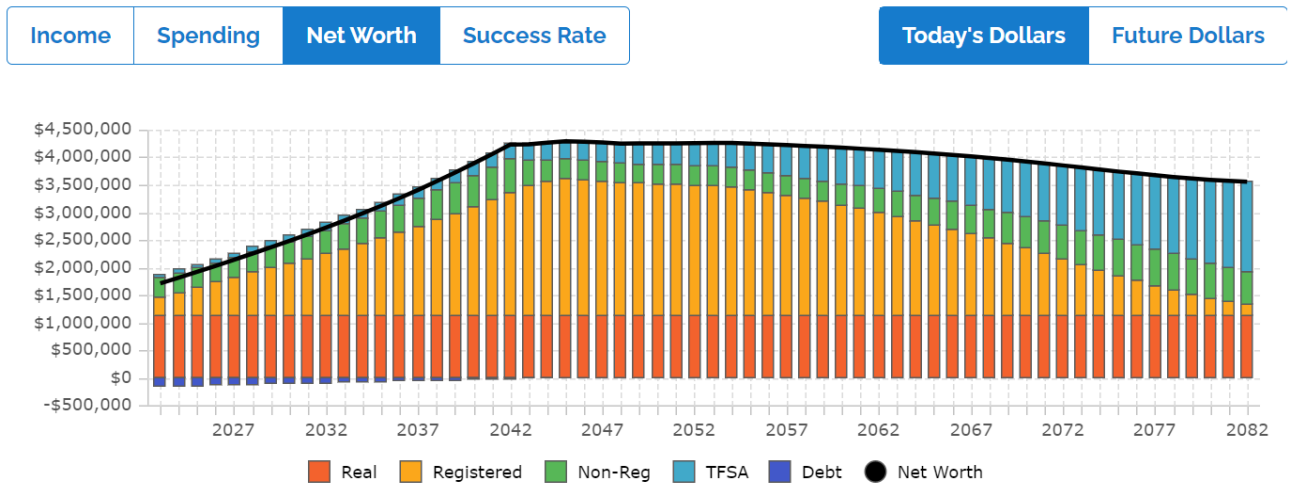
Income
Spending
Net Worth
Success Rate

Today's Dollars
Future Dollars



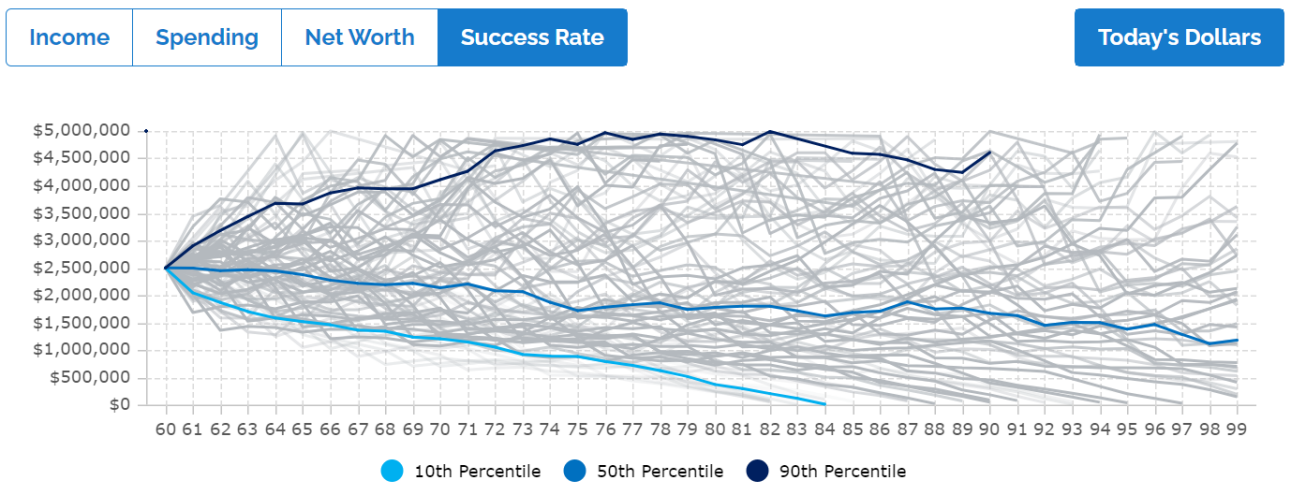
Net Worth

We can see that the high household savings rate, when allocated and invested professionally, results in a steady increase in the clients net worth. Then, in retirement, due to their large asset base and modest spending, they are able to draw down slowly on the asset base and leave a substantial amount of money to their kids per their wishes. Graph shows a diversified asset mix until retirement at 65.



Success Rate

Our software then runs many different simulations and a success rate and margin of safety are given. This is discussed openly with the client and changes are made as required.



After a series of video calls a detailed set of financial projections is given to the client along with an action based written report to be implemented.

Recommendations

1. Start an RESP (retirement education savings plan) right away for his daughter. Contribute \$2,500 per year to maximize the Canada Education Savings Grant. Contribute additional funds when available to get additional grants for years that have not been contributed for. Review of the best investment options available.
2. Buy the house that he (his partner) wants for \$1,350,000.

3. After stress testing the households ability to handle current market interest rates for their possible house and future condo a discussion about selling the preconstruction condo is had. Specifically, a review of the taxation and cash flow implications.
4. Asset diversification is required - currently assets are in housing and 1 company's stock. As the client wishes to start DIY investing a review is given here along with the best practices. Implementation assistance and ongoing advice is very important for a newer DIY investor.
5. A detailed cash flow plan is given showing where to allocate their money over time. A certain percentage is allocated to pay down the mortgage earlier, some to the TFSA and some to the RRSP. The cash flow plan follows their lifestyle plans.
6. After a thorough needs analysis recommendations are given for life insurance and disability coverage.

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Result

1. Asset maximization and tax efficiency now and in the future. Good education plan for his daughter's future. Peace of mind and a happy, growing family.

Let us know what you want to improve from your current financial situation.

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