# MANAGE WEALTH, NOT JUST MONEY

## 5 Tips To Help Clients Plan Their Future

By Sarah Bull

I'll never forget my first meeting with a client I'll call Nancy. She was in her early 50s, with two kids in high school, and was a partner at a prominent law firm. She and her husband, a successful executive, had been married for 25 years. For Nancy, the split came as a bolt out of the blue—and it put her at a serious financial disadvantage. Her husband had managed all their finances and investments, with help from a financial advisor who was a friend of his from university. Nancy, meanwhile, had been so busy with her career and family that she didn't have a complete picture of the family's net income and cash flow, or what it cost to maintain their high-end lifestyle.

As a result of the divorce, Nancy received a substantial lump-sum settlement, plus the promise of monthly spousal and child support. But she had no idea how to manage it all—and, more importantly, how to make it last throughout her lifetime. On top of the emotional havoc the divorce had wreaked in Nancy's life, she was feeling completely out of control when it came to her long-term financial prospects.

As a portfolio manager who specializes in working with women after divorce, I meet a lot of clients like Nancy. After all, in most relationships, one spouse has more control over the household assets. But it's not enough to simply invest their capital into a portfolio of investments and show them the door. It's my responsibility to help clients take control of their financial future by giving them a holistic view of their wealth—how much money they have, where it's going and how to make it last.

**Important steps:** The first step in that process is to help them understand how much income they need to sustain their lifestyle. The second is to help them understand how long they'll need to sustain that level of income. And the third is to help them get a handle on what rate of return they'll need to generate in order to do that.


### FIGURE OUT HOW MUCH THEY HAVE

Considering the haze of distress that often accompanies the divorce process, don't be surprised if your client doesn't even have a firm grasp on how much money they have to work with. The first thing I do is to make sure my clients are intimately familiar with how much capital they have, where it's invested and what kind of return it's generating, along with how much they can expect to see on a monthly basis (after taxes). For women like Nancy, just seeing that on paper can be immensely reassuring—having a sense of their new net worth allows them to move forward.

It's also a good idea at this stage to cover a few basics, such as changing the beneficiaries on their Tax-Free Savings Account, Registered Retirement Savings Plan and insurance policies from their former spouse to their adult children or estate. Have they updated their will and power of attorney?

## 2 HELP THEM UNDERSTAND THEIR LIFESTYLE EXPENSES

If your client has never managed the accounts before, putting down on paper exactly how much money they spend each month can be a shocking exercise—particularly since maintaining a household on a single income is far more expensive than living together as a married couple.

It's crucial to force clients to be as detailed as possible. What often trips up the women I see is discretionary spending or unplanned liquidity needs. Do they have three months' worth of living expenses set aside for unexpected events?

The key here is to strike a balance between budgeting for daily living and ensuring your client's capital is protected over the long term. If there's a substantial gap between income and lifestyle expenses, your client has two options: either earn more or spend less. Is it enough to simply cut back on discretionary spending, like vacations? If not, does it make sense to downsize into a smaller home to free up cash flow? Or try to boost her income at work? If that's not an option—which might be the case with older divorcees, who represent a growing portion of the clients who walk through my door—does it make sense to shift some of her investments into riskier asset classes? And what are the drawbacks of doing so?

### KEY POINT:

Risk management is one of the most important drivers in constructing a portfolio for a newly divorced client. Moving to a single income from two incomes changes both lifestyle and risk.

## 3 DEVELOP A FINANCIAL ROADMAP

There is a difference between simply managing a client's investments and managing their wealth. I manage wealth. And building a **strategic wealth plan** is a cornerstone of the post-divorce wealth management process.

The plan walks a client through various financial models: If you spend X every month and generate Y return on your investments, here's how long your capital will last (taking into consideration salaries, pensions and other potential sources of income, of course). It's likewise important to explain the basic concept of risk and return, to help clients better understand the asset mix in their portfolio.

## 4 CONFRONT THE WORST-CASE SCENARIO

What if your client gets laid off, or her ex-husband's financial situation takes a turn for the worse and she finds her monthly support payments slashed? Do they have enough of a cushion to absorb that reduction in income? If they must delve into their investments, how will that affect them later on? Do they have enough insurance to cover them if they find themselves battling cancer or another lingering illness? What about their needs later in life, which could include long-term care or pricey medications?

On a happier note, what if they meet someone new? How can they protect their assets, just in case?

## 5 KEEP THEM ENGAGED

For newly divorced women, the days of being able to ignore their finances are over. An important part of this whole process is getting clients engaged in their investment decisions, which will allow them to accomplish their short-term, long-term and legacy goals.

**Update:** As for Nancy, she's doing great. Her kids are now at university, and she has downsized to a smaller house in an urban neighbourhood she always wanted to live in. The money she had left over from the sale of the matrimonial home and her equalization payment is now compounding in her investment portfolio for retirement. And that has left Nancy feeling confident and empowered about her future. ◆

**SARAH BULL**
CIM®

Sarah is a partner and portfolio manager of KJ Harrison, a Toronto-based private investment management firm servicing families across Canada.