

Cleaning Out Your Financial Closet Under Quarantine

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INVESTMENTS

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Sheltering in place has been a tough adjustment. Not being able to meet with family and/or friends and not having the opportunity to step outside your home or condo to take a break was a tough adjustment for many, including myself. There were some positives to the lockdown though: reconnecting with immediate family, gardening or finishing off those home projects that you have been avoiding. Another "to do" that I hope you might be thinking about are changes that have occurred in your priorities that might impact your financial affairs. If you haven't addressed this yet while in lockdown, here are some recommendations to inspire you to get organized, and to feel empowered and confident in your financial future.

Review your spending, saving and cash on hand

The recent pandemic and economic shock that ensued certainly made clear that having an emergency cash reserve available for times like this is very important. The idea behind an emergency fund is to see you through a period of uncertainty regarding employment and health concerns, without the need to run up debt or tap into your retirement savings. Recommendations vary for the size of the emergency fund from three months to a year of spending. The amount will vary based on your specific circumstances, however at a bare minimum, three months of spending should be stored away for a rainy day or a Covid-19 type event.

Building an emergency fund and creating sustainable wealth requires you to understand your cash flow situation, which calls for an easy way to calculate and understand the most material parts of your cash flow situation. Below, I have shown an example of this calculation along with some comments to make the process easier.

Annual Estimate	Cash Flow Example	Adam's Comment
Income\$	\$100,000	T4 income on your last tax return will do or you can annualize your most recent pay stub
Taxes\$	\$23,708	Use the Ernst & Young combined income tax calculator found at the link below to calculate your expected taxes based on your income estimate: https:// www.eytaxcalculators.com/en/2020-personal-tax-calculator.html This tax figure is for an Ontario resident in tax year 2020
Savings\$	\$12,000	You might save a monthly amount say of \$1,000 per month, or you might do a lump sum at the RRSP deadline each year for \$12,000 instead.
Spending \$	\$64,292	Assuming you are <u>not</u> hiding money under your mattress, this figure is the result of deducting your taxes and savings from your annual income.



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Revisit your investment plan

The savings you are setting aside have likely been contributed to a Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA). These are tax efficient investment accounts and a good place to grow your savings. If the recent downturn in the stock market had you up all night, then it's likely that your investment plan does not fit your expectations. Your investment plan should be based on two key and interrelated factors: your ability to tolerate risk (facts about you, i.e. age) and your willingness to tolerate risk (feelings you have, i.e. anxiety). If you set your investment plan up correctly, then your expectations even in challenging markets like we had recently should not cause you anxiety.

Protect your family through insurance and an estate plan

Protecting your family from the Covid-19 virus has been a priority for many parents and families recently, including myself. Purchasing face masks, hand sanitizer and disinfecting wipes are some of the investments many have made to combat the virus. Life insurance coverage is something that can protect your family as well. Although we don't like to ponder our mortality, the recent pandemic has obviously made us hyperaware of the fragility of life. Given the current situation with Covid-19, today, many insurance companies are providing life insurance coverage faster and easier than ever before. Having a paramedical nurse come to your house to take your blood, etc. is no longer acceptable with the present virus. Today, up to \$2 million in life insurance coverage can be acquired through a telephone review with a nurse.

Similar to organizing the garage or the kitchen cupboard, make sure you sort and store your financial records (i.e. will, insurance policies, investment statement, online passwords) in a safe place. Why is this important? If you happen to pass away, your loved ones and executors will need to be able to retrieve these documents to deal with your estate efficiently. If you have been avoiding completing or updating your will and power of attorney documents, now is always the right time to get those very important documents completed by a lawyer. A will and power of attorney don't just protect and organize your financial assets, but ensure that any dependents you have (i.e. children) end up in your desired care givers' hands. Also, make sure to review the beneficiaries on your registered investment accounts (RRSP, TFSA, etc.) to ensure that you have designated a specified living beneficiary. Updating this information could save your estate and loved one's thousands of dollars in unnecessary taxes.

Next Steps

Not comfortable cleaning out your own financial closet? Don't have an investment plan in place? Now's a good time to get one! Consider meeting with a financial professional who can establish a financial and investment plan so that you will know what to expect. At my investment practice, we create a financial strategy, and investment plan for our clients. As a result, our clients understand what they can expect from their wealth in challenging times and the potential risks to their plans. In the end, our clients are more confident in their future and can have the peace of mind that they can weather future events, like Covid-19. If you would like to know more about how you can become more confident and comfortable in your financial future, please reach out to me at 416-901-6500 or email adam.mchenry@manulifesecurities.ca for a free consultation. For further information please visit www.adammchenry.com.

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