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A man to lead your team

Doug Macdonald as interviewed by Dana Lacey, Financial Post


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FP profiles the best people to surround yourself with to live longer, healthier and wealthier. In this final installment of a five-part series, Doug Macdonald, RFP and a fee-only financial advisor, discusses why you need a good financial quarterback on your team.

I like to think of myself as a quarterback. As a financial advisor, I am able to take your goals and aspirations, quantify them into financial terms, and then direct from that point of view. I interface with your lawyer, your tax accountant, your insurance agent and banker. I'm not criticizing the other professionals, but they tend to speak in technical jargon. We translate it, make it easy to understand. It's a lot easier to feel comfortable about your finances if you understand what's happening with them. Our job is to give people better information so they can make more informed decisions. I always say I'm in the peace-of-mind business, because that's what I'm looking to deliver to my clients. When the stock market goes in the ol' dumpster, I want my clients to take comfort in knowing their assets are diversified enough and allocated in the right way to minimize the impact of a downturn. That keeps them in the market, so they don't bail at the bottom and so they're there for the up swing.

Plan away your problems Our involvement with clients can start as early as age 40, and continue right past retirement. We don't tend to get many young people. In your 20s, life is usually pretty simple. You are mostly paying off student loans and accumulating a few things.

When you get in your 30s and you're in family formation and get a house, the best advice I can give you at that point in time is setting up an RRSP and a tax-free savings account. Other than that, the best idea is to pay the mortgage off -- although not so much today with low interest rates -- but certainly it's a very effective base to work from.

Then you get into the 40s, when maybe you haven't paid for all the stuff you needed, but you're in a much better financial position and can generate a savings capacity. Now we can talk about accumulating financial assets.

Sometimes I see people in their 50s, and the real hard cases are people starting this process in their 60s. I often say it's never too late to start planning, but boy it's a lot easier if we start early.

Accumulation of wealth is a function of three things: amount of money, rate of return and time. We can do a few things to increase the money, and we might be able to get more aggressive and do something about the rate of return. But you know which of those three factors is the most important? Time. And I can do nothing about time.

Who's the wealthiest of them all? Wealth is a relative term. In my mind, wealth is the ability to sustain your standard of living for as long as you would expect to be alive. Picture a plumber who lives off $40,000 annually and has $600,000 in the bank. Now picture a hockey player that lives off $2.5-million annually and has $5-million in the bank. Who is the wealthiest? The plumber. The hockey player could sustain himself for two years, while the plumber has 15 years in the bank.

It's 11 o'clock, do you know where your money is? It's important to focus on asset allocation. Let's be blunt: There is debt and equity.

That's all. Yes, there are all sorts of stuff on the fringe, and you can get confused by commodities and hedge funds and all this weird stuff, but it's important to us that clients invest in things they can comprehend and are comfortable with. That's the key word: comfort. We sit down with you as a client and figure out where your comfort level is. Do you want very little volatility? We would put you in maybe 30% equities. So when the market dove 40%, you find yourself losing less than 10%, so you're not losing sleep. Of course everyone is different: I have clients with 10% equity, some with 70%. Hitchcock often said it's what you don't know that I can scare you with. Watch Psycho -- you never see the monster. With people, it's what they don't understand that causes fear. Of course we don't know everything, but we certainly know how to identify the problems, and how to find someone to help you solve them.

Financial mechanics Fee-only is just one approach to financial planning. I've been doing it that way for 37 years. The only people that pay us are the clients, so guess where my loyalty is? Often, the fees are hidden in this business. Although people complain about the bill, they see every dime I get paid. I wish I could buy a car that way: I pay someone $600 and ask him to help me buy the right car for my circumstance. That way he's not going to push me, because he's already getting the $600. He wants to get me in the right car so I'll come back to buy the next car, and the next. I have clients I have been seeing for 25-30 years. They ask me for advice on everything, from buying a dining room table to leaving their estate to their children, all sorts of things that go beyond the realm of dollars and cents. I want to be able to look them in the eye and know I made the best decisions for them.
