



# Using The 5 Ws To Create Your Financial Framework

Graham Byron

**I** believe it's critically important to establish clear goals and build a financial framework with your advisor. Beginning your financial journey with full awareness of your personal situation and clear goals will allow you to stay the course or make necessary adjustments in a calm and reasoned way, whether change is anticipated or arrives unexpectedly. In this article, I discuss the What, Who, When, Where, Why and How of building a financial framework.

## What

What is a financial framework? A financial framework is a financial plan combined with a clear Investment Policy Statement (IPS). After the in-depth discussion about you and your goals, your advisor should create a complete financial plan, which will act as the base of your financial framework. I have always found a comprehensive plan to be a key driver of success for clients. To be clear, I'm not talking about success in terms of generating the biggest returns or beating benchmarks, but in terms of clients' comfort level and confidence that they are doing the right things at the right time and at the correct risk level to meet their goals.

An IPS should:

- **Describe the client(s)**
- **Set time horizons for specific goals**
- **Define risk tolerance**
- **Explain approved investments and the fees associated with them**
- **Illustrate the portfolio structure**
- **Outline the ongoing review process and benchmarks for performance**

- **Detail the responsibilities of the advisor, support staff and clients**

An IPS reflects what good advisors do for clients on an ongoing basis, and while it may not be in writing, your existing advisor may already do all the above and more. However, many people find that putting such a plan in writing helps to clarify what they are trying to achieve and how they are going about doing so. If you are working with a team of advisors rather than having a close one-on-one relationship with a single advisor, having a written IPS becomes critical to ensure each team member is aware of your situation.

Your financial plan should answer the following questions:

- **Am I going to run out of money if I try to achieve the stated goals?**
- **How much risk do I need to take to generate the returns I need to achieve my goals?**
- **What changes do I need to make to achieve my goals?**
- **Do I need to give up any goals?**

Remember, while facing reality can be hard, it can also be the key to discovering new goals and opportunities. There is no point in wasting your life planning for future goals that you can never achieve; instead, appreciate the reality of the opportunities you do have.

To complete your framework, you and your advisor will likely want to consult other experts, particularly if the plan raises red flags. For example, you may need to:

- **Look at your will and estate plan with**

**your lawyer and, if needed, an insurance agent**

---

- **Look at your taxes with your accountant**
  - **Look at your investments with your Investment Advisor**
- 

## Who

Who will you choose to work with on this process? Your choice of advisor can be the key to achieving your new goals. You will find no shortage of people who consider and promote themselves to be the best at helping you. Some choices could include:

**An Investment Advisor**

**An accountant**

**A fee-only financial planner**

**An estate lawyer**

In my most recent book, *The Mindful Investor* (Wiley), I explore in-depth techniques to help you seek out and evaluate advisors so you can determine the one who is right for you. Key points to look for that may offer clues to future behaviour. Do the advisors you interview:

- **Treat all of the people around them with respect (watch how they treat their staff)?**
  - **Have a real desire to be of service? Are they completely interested in and focused on you?**
  - **Have a win-win attitude? This one can sometimes be tricky to judge; trust your gut.**
  - **Have a real depth of knowledge – what was the advisor’s latest conference attended or course taken? This can reveal whether your advisor is getting stale. Even the finest designations mean nothing if the advisor has lost interest.**
  - **Have a big mind? Do they have a broad perspective beyond their own specialty and can they see others’ points of view?**
  - **Have the ability to help you implement and monitor your goals on an ongoing basis? If you have chosen to work with an**
- 

**Investment Advisor, clear benchmarked performance reporting is key.**

---

## When

When should you begin to build your financial framework? You can probably guess the answer: the sooner, the better. Once you have your financial framework in place, you can actively and accurately work toward achieving your now clearly defined goals. That said, it’s never too late to create your financial framework. Once you have clarity about your goals, you can either take comfort in knowing that you are heading in the right direction or you can course-correct to bring you closer to achieving your goals.

## Where

Where can you develop a financial framework? This is entirely up to you. If you prefer, you can meet with your chosen advisor face to face at their office. However, this is not a requirement as technology has provided options for the process—documents can be scanned and sent by email, changes to the plan can be made quickly and easily over the phone or via Skype. Today, you can contact your advisor from the comfort of your own home in your pajamas (although if you Skype, you might want to put on pants), and quickly obtain the data you need or answers to questions that may have kept you awake all night:

- **What did the recent market correction do to my long range plan?**
  - **Should I sell my home and move to a condo?**
  - **Can I give money to my kids now rather than waiting?**
- 

## Why

Why create a financial framework? A financial framework gives you a starting point as you move toward your goals and acts as a touchstone when things get difficult.

Ask yourself the following questions:

- **Do I have enough awareness of my current financial situation to be able to handle a disruptive event such as an illness, death, divorce, job loss, business failure or a stock market correction?**
-

- **Do I have sufficient resources in the accounting, legal and investment fields to avert disaster or quickly improve my situation should one of these unplanned events come up?**

---

- **If I am a DIY investor or use a robo-advisor, can I make the changes required to my situation while dealing with the pain and suffering that can be associated with these situations?**

Your answers will make it clear to you whether or not you need to establish a solid framework right now.

## How?

How does the creation process work? At a recent Chartered Financial Planners (CFP) conference, a leading planner from the U.S. equated the traditional financial planning process to a root canal—with the planner asking uncomfortable questions while the clients grind out answers. While it was difficult for many CFPs to admit, this is the truth when the process does not focus on the client's goals, hopes and dreams. When you create your financial plan, it should be a comfortable, iterative process, which is why it's so important to choose an advisor with whom you feel at ease. The advisor will ask you questions about your goals, hopes and dreams, will review your income, assets and liabilities, and will create a plan that will help move you in the direction

of those goals. If you have done a plan in the past and feel little enthusiasm about doing another, be aware that technology and approach have improved to the point where putting the plan together can now be a stimulating, creative and interactive process that focuses on you.

As a final thought, be careful not to get too focused on one area of your situation. Understanding one area particularly well, such as your tax situation or your business, can give you a false sense of confidence and control about everything else. You need to step back occasionally and look at the big picture. Reviewing and, if necessary, updating your financial framework on your own or with your advisor can help you do this.

If you have any questions, my contact information is below and is also included in the *MoneySaver* Directory of recommended advisors. Feel free to contact me.

*Graham Byron, CFP, FCSI, Vice-President, Investment Advisor and Portfolio Manager with CIBC Wood Gundy, co-author of the bestselling *The Mindful Investor* (Wiley) and *The CARP Financial Planning Guide* (Stoddart). Toronto ON, 416 229-3314 [www.grahambyron.com](http://www.grahambyron.com).*

---

The views of Graham Byron do not necessarily reflect those of CIBC World Markets Inc. CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and a Member of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor.