

PREFACE

Money, Money, Money!

The success and paradigm shift that brought forth modern Western Capitalism has got the world singing one song and one song only: *Money, Money, Money!* I believe in capitalism and support it whole-heartedly. Needless to say, I've caught myself singing the same song once or twice before. However, as I've made strides throughout my career as a portfolio manager, strangely enough, I've found myself singing that song much less.

In this book we will talk about money. However, we will do it from a different perspective than one most of us are used too. Before we talk money though, I must show you my tantric side. Without even knowing you or your story, I want to describe you and your family's lifestyle, especially when it comes to money. For starters, you probably live in a comfortable home that likely has air conditioning and you probably never dread dealing with pesky houseflies or mosquitos! You drive an automatic car, and can easily travel to wherever you and your family want to go. The orange juice you drink with your breakfast is plentiful, and you never need to ration it, worrying about not having enough tomorrow. When Mom makes chicken for dinner, you and your siblings don't fight for the leftover chicken leg at the table. You've never had to brag to your friends about your family's ability to feed on almonds and nuts all day if they have to. Surprise! Surprise! You are a Canadian citizen, and life is good!

So before we talk money, let's talk lifestyle in general. We can safely conclude one thing for certain – you're living a life that is significantly better than 95% of the

world's population. And since your life is better than 95% of the world's, why do you need to waste the next couple of hours reading my bakwaas?¹

Here's why. While you know that you have a car, a nice house, and that orange juice with breakfast is plentiful, but are you aware of it on a conscious level? Like most wealthy people, you probably spend a lot of your precious time thinking and worrying about money. I can almost guarantee that the majority of your efforts are geared towards lifting your materialistic status and not towards lifting your spirit and living a blissful life.

My effort here is to share my experiences as a professional financial advisor for the past 23 years to simplify the subject of money so that you and your family have more time to spend on the real human issues at hand, i.e. the health of your mind, body, and spirit. In the following chapters, I have tried to translate my experience into a concrete framework consisting of my Seven Principles of Money Management.

¹ *Bakwaas* - Hindi word for nonsense

CHAPTER 1

KNOW WHERE YOUR MONEY GOES

It all seems simple right? First, my money goes into my bank account. Next, I use it to buy coffee, clothes, and cars. And besides, you know where your money goes; you budget, don't you?

I'm afraid it's just not that simple.

We all know about and believe in budgeting. Many of us take part in this exercise a few times a year to make sure that we know exactly where our money is going, and so we can achieve our desired financial goals. I have a quite different approach to budgeting – and it's anything but crunching numbers. Before I begin, it goes without saying that everyone should have an idea about their spending in regards to big expenses, including mortgage payments, utilities, insurance, and gas bills. Any more details in your budget are not only wasting your time and energy, but also feeding you with incorrect conclusions. And worst of all, they give you a satisfaction that you're spending your time efficiently when it comes to controlling the most uncontrollable commodity – money.

Let me tell you about a close friend of mine, we'll call him Raj. Raj has been doing this futile budgeting exercise for the past 35 years. That's almost his whole working life! Raj has two kids who are both studying abroad. Raj has his two kids write to him, in complete detail, their day-to-day expenses. I've even seen Raj yell at his adult children for spending too much on coffee in a month. Has the yelling been effective? No. In fact, I believe this whole exercise did nothing to strengthen his family's financial

health, but instead created the wrong value system. Young adults in university are bound to incur many expenses, which I believe have little use being accounted for. By accounting for them, as are Raj's desires, they will become adults that fret over spending \$5 a day on coffee – which over the long term is not only not worth the time, but definitely not the mental stress! (I like my coffee).

So if not budgeting, then what?

Let me show you a little trick that will give you the *real* information that you need for effective budgeting. In addition, I believe it will encourage you to acquire the real knowledge necessary to better manage the expenses side of your cash flow, and will save you the time and energy of budgeting petty cash money every month. So let's do this exercise together. For this to work as well as possible, it's important that you follow these instructions as best as you can. It won't take long.

First, I will ask you to go to your chequebook and pull out a blank cheque. On it, write down the approximate amount of your family's monthly gross income – almost as if you are writing a real cheque. Now hold this cheque in your hands, and slowly tear off one fourth of this cheque (a quarter of it). This quarter of your cheque represents your family's biggest expense in Canada. This is what I like to call the **first stupid I**. The first *stupid I* is the dreaded, and rightfully so, income tax. Next time you add your weekly grocery bills to your budget, instead use that time to educate yourself on how you can cut some of the income tax expense instead. A little effort here will take you far in bringing in a few fresh ideas leading to some real savings.

Now, let's put the income tax quarter on the side, and once again hold the remaining cheque in front of your eyes. Again, tear off one fourth of the remaining cheque. This new quarter represents the second largest expense that Canadian's incur, and is what I call the **second stupid I** – Interest. More than 80% of Canadian have some kind of consumer debt on top of the mortgages that we all carry on our homes. Typically, 15 – 20% of your pay cheque will go towards paying off the interest you've accumulated (and not because you bought coffee last week!). The debts can be a result of a variety of different loans, including student loans, credit card debt, line of credit, or car loans. Although this *I* is a little smaller in size than the first one, managing this *I* can play a major role in keeping the other two *I*'s in order.

But that's easier said than done, right? Managing this *I* isn't easy! Let me share my experiences regarding the importance of managing this *I*. Anyone in Canada who can accomplish the simple, but by no means easy, achievement of getting rid of all kinds of debt is set to have very good control on managing the remaining two *I*'s.

Moving forward, please write *Interest* on the second piece that was torn off from your cheque, and place it with the first *Income Tax* portion of the cheque. Once again, hold the remaining piece of the already shortened cheque and tear off one fourth of the remaining cheque. Here goes your third biggest expense as a Canadian, what I called the **third stupid I** – Insurance. Human beings have an innate desire to make most of our financial decisions based on two things: Fear and Greed. So, in fear of losing our beautiful life style, we pay for all kinds of insurance protections. These include car

insurance, home insurance, health care insurance, life insurance, employment insurance and in some cases, insurance for our pets, TVs, and cell phones! It's a very simple subject. For starters, let's discuss life insurance. Making the decision on the amount and type of life insurance protection can be simplified by doing just a little homework. Despite this, most Canadian's don't do their homework, and will happily sign on to committing bill payments for the rest of their lives, without spending any real time and effort on understanding this important financial product. Unfortunately, many of us lack clarity on the simple questions of insurance, such as what type of life insurance is needed to fulfill our needs, or whether or not we really do need to insure our new television set.

We just saw above that nearly 50% of your hard earned income is slipping away before you even see it, so next time before you spend your valuable time in futile activities like budgeting groceries, be wise with your time and spend it on educating yourself on how you can gain more control on these *I*'s. I am sure this will serve your family better, perhaps better than knowing how much your daughter spent at Starbucks last Tuesday! And remember, the gift of looking after the 3 *I*'s is simple, but also important knowledge that can be passed on to your family and future generations without any estate tax, and may bring more financial freedom than the conventional inheritance that is often so sought after.