THE VALUE OF FINANCIAL ADVICE SERIES: →taking on more risk for better rewards…

Alexander, a 45-year old independent businessman, is meeting with Roberta (a financial planning professional) for second opinion of his retirement portfolio. Roberta notes that Alex has been quite disciplined in his saving regime and has amassed a good-sized pool of assets for someone his age.

RRSP value:	$250,000 -held in GICs and fixed income mutual funds.
TFSA value:	$ 49,000 -held in term deposits.
Cash account value:	$121,000 -held in low-risk, money-market funds.

Roberta also notes that the answers Alex gave on a risk tolerance questionnaire tool – indicates that he has a moderate appetite for investment risk. Roberta wonders why Alex's investments are all low-risk, liquid assets. Alex states that his father helped him to set-up the accounts and he has only added to them since, without considering whether the holdings were appropriate for him.

Roberta calculates the future value of Alex's portfolio with the following specifications:

Rate of return:	2.0% (average ROR for the types of assets held in all accounts)
Years to retirement:	20
Annual contributions:	$10,000 ($7,500 in the RRSP and $2,500 in the TFSA)

Future value of RRSP:	**$553,717** (*$337,917 in today's dollars*)
Future value of TFSA:	**$133,555** (*$81,504 in today's dollars*)
Future value of Cash Account:	**$179,799** (*$109,726 in today's dollars*)

From this, she calculates Alex's potential retirement income stream to be approximately **$44,412/year**. Alex is a little disappointed and says he was hoping for more income.

Roberta presents a plan to grow Alex's savings faster with the objective of producing additional income in retirement. She recommends re-allocating the current and future investments to a well-diversified, growth-oriented, mutual fund portfolio. She also recommends that Alex forgo some discretionary spending in order to contribute more to his retirement savings. Alex agrees to adhere to the new plan: he will increase his RRSP contributions to $15,000 annually and double his TFSA savings rate while Roberta handles the necessary re-allocations.

Roberta re-runs her future value calculations to see what affect the changes will make:

Rate of return:	6.4% (FPSC L/T growth rate for Canadian equities)
Years to retirement:	20
Annual contributions:	$20,000 ($15,000 to the RRSP and $5,000 to the TFSA)

Future value of RRSP:	**$1,440,623** (*$879,170 in today's dollars*)
Future value of TFSA:	**$ 361,481** (*$220,601 in today's dollars*)
Future value of Cash Account:	**$ 418,425** (*$255,352 in today's dollars*)

From this, she calculates Alex's potential retirement income stream to be approximately **$134,728/year**. Alex is much happier with this outcome.

CONCLUSIONS:

- By accepting a higher Risk/Reward approach and increasing his annual rate of savings, Alex would be able to increase his retirement asset pool (at age 65) by approximately 156%.

- He could potentially increase his retirement income stream by approximately 200%