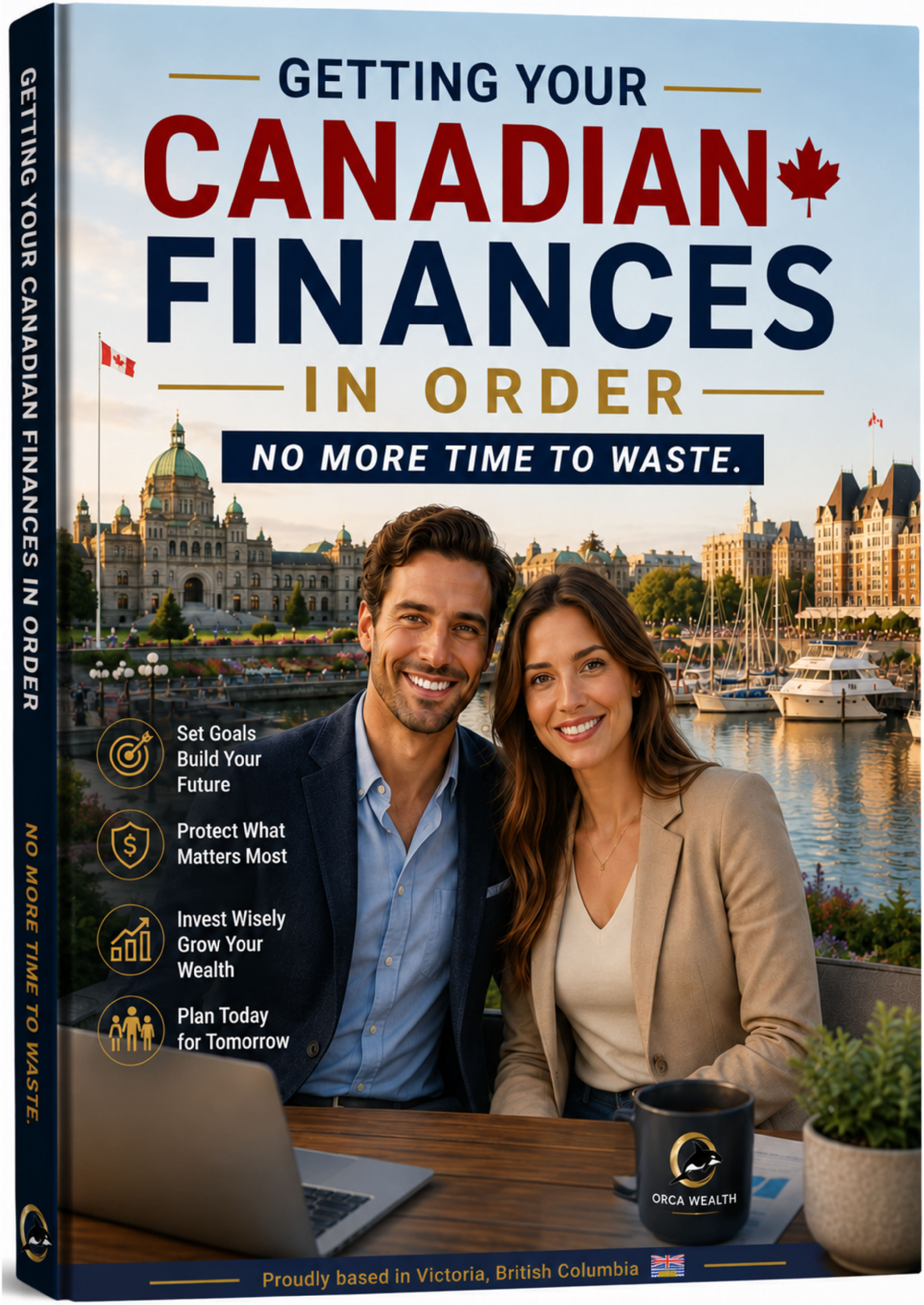
GETTING YOUR
CANADIAN
FINANCES
IN ORDER
NO MORE TIME TO WASTE.
Set Goals Build Your Future
Protect What Matters Most
Invest Wisely Grow Your Wealth
Plan Today for Tomorrow
ORCA WEALTH
Proudly based in Victoria, British Columbia
GETTING YOUR CANADIAN FINANCES IN ORDER
NO MORE TIME TO WASTE.

READY FOR RETIREMENT

Damn right I am!

THE FIVE LAWS OF WEALTH CREATION

The complete original manuscript

by Dave Shortill

Orca Wealth and Insurance Services
Independent advice since 1987

> **“At Orca Wealth and Insurance Services, we have a very simple approach to achieving success.”**

— Dave Shortill

Success has many meanings. It could pertain to being in the best of spirits, being the best athlete, or being the best academic; however, the formula for success in all instances remains the same. To be successful, first, identify a role model; second, ask that role model, “How did you do it?” and third, do the same.

Investing is no different. Identify a role model, ask them for their recipe for success, and do the same.

Early in my career, while with the Berkshire Investment Group, I identified Mr. Warren Buffett as my role model. We had studied his work over the years and implemented his principles – his recipe for success in our clients’ affairs. Hence, the success that we have experienced has been garnered over the years with respect to our clients.

The bottom line is that my job is to model your financial status after those that came before you. I call this modeling. Do what successful people do, and you should follow suit.

Now regarding that role model formula, an informal study of successful people was done. Successful people manage their finances using a specific format, and we have distilled it into five wealth principles, better known as “The Five Laws of Wealth Creation”.

LAW 1

Set a specific goal

Every single successful individual business is goal oriented. In other words, if you don't know where you are going, any road will get you there. If you aim at nothing, you will hit it with amazing accuracy.

Every single successful business is goal oriented. If you were to ask Bill Gates, "Bill, where do you see Microsoft in terms of revenues, in terms of earnings, two, three, even five years from now?", he likely will be able to give you a very precise answer. But if you were to ask the average person on the street, "How much money would you need in 15 years, 20 years, to consider yourself financially independent?", that person would be fidgeting for an answer. That is likely where you are at this point. Looking for answers.

So, a successful person is goal-oriented and, more importantly, can articulate his/her goals quite easily. Successful people can quantify their financial goals exactly.

Here's an example. Say you selected me as your financial advisor, and you said, "Dave, I need $70,000 per year to live on," and you asked, "Dave, how much will I need in 25 years to be the equivalent to $70,000 per year today?"

Assuming a 3% inflation rate, you will need $146, 000 25 years from now to buy the same basket of goods and services that cost $70,000 today.

But the question is, how much capital will you need in 25 years to give you an income of $146,000, which is equivalent to $70,000 today? Assuming an 8% rate of return, you will need $1.8 million in 25 years.

Having a goal, knowing where you want to be, is the first solution to the problem. This may be a daunting problem, but knowing the quantum of money you will need is the first step toward solving it. So, I will say this to you: if your goal is $1.8 million and your time frame is 25 years, if you could compound at the rate of return of 8% after tax, you would need to have $23,000 per year for the next 25 years to achieve that $1.8 million. How many investors with a $70,000 per annum income have $23,000 per year in free cash available for investment after tax? Not many, I would think.

> If you aim at nothing, you will hit it with amazing accuracy!

Therefore, we obviously need a different methodology than working, paying taxes, and saving after-tax dollars. It's not going to work. Wealthy people did not become wealthy by working, paying taxes, and saving every month with their after-tax dollars.

So, principle #1 is that successful people quantify their goal. And once they have quantified their goal, they know exactly what does not work. Therefore, they need to examine what will work.

LAW 2

Use other people's brains

Law #2 says that every single successful business, every single financially successful individual, recognizes the value of a board of directors in attaining wealth.

If you had a headache, you would not go to medical school to learn medicine to diagnose yourself – you would go to an expert, a physician, and use his brain.

Similarly, if you have car trouble, you don’t go to car repair school – you take your car to a qualified mechanic – you use their brain.

It goes back to the corporate concept of a board of directors. Companies are typically guided by a board of directors, and their members are drawn from diverse walks of the business community. The board member’s responsibility is singular: to increase shareholders’ wealth and value. That’s the singular responsibility of the board of directors.

So, the question I must ask you today is: “As an individual, who is on the board of directors advising you on how to become financially independent 25 years from now?” Because your success rate will depend on the qualifications and experience of the board members.

Our role at Orca Wealth and Insurance Services is to assemble for you a board of directors whose focus is singular: to help increase your net worth so you will be in a position to retire comfortably. That’s our goal.

The concept of the board of directors is well known in corporate settings. We advocate using the same concept in your personal situation.

LAW 3

Use other people's money

Every successful company/individual is well-versed in using other people's money.

I'll give you two examples. If we did a survey of 10,000 Canadians and asked them, “What investment you made in the past is your best investment?” The answer will likely be a resounding "their homes."

> “What investment today that you made in the past is your best investment?”

Take this one step further and ask, “How did you buy your home? Did you work, pay taxes, and save with after-tax dollars to buy your home? Or did you save 10 or 20% as a down payment and then get a mortgage from a local financial institution? 99.9% of the 10,000 would likely say, “Yes, I saved for the down payment, and then I went to an institution that gave me a mortgage. “In the procurement of a mortgage, it is evident you are using other people’s money. So, what I’m saying is, if these Canadians had not gone out and gotten a mortgage, they almost certainly would not be homeowners today, and they almost certainly would not have this investment in their portfolios. The key here is: if the principle works for your home, why not apply it to the greater quest of financial independence?

So, on a personal, individual basis- the use of other people's money – wealth has been documented in terms of home ownership. Among successful corporations, every company has a balance sheet. On the left-hand side is a list of assets, and on the right-hand side is a list of liabilities.

It is the responsibility of the Chief Financial Officer or Vice President of Finance to ensure that those liabilities are managed prudently and that the company can demonstrate it, because they are working with other people's money.

It can provide you with phenomenal benefits and reinvigorate your financial affairs.

At Orca Wealth and Insurance, our philosophy is: yes, the use of other people's money is important, but it is prudent; we advocate prudent use.

In fact, it gets back to the future value formula, FV=PV(1+r)n, where FV, or future value, is your future nest egg; PV, or present value, is how much money is working for you today; r is the after-tax rate of return; and n is the investment period. The key here is that you want to optimize PV. And there are only a certain number of ways to maximize PV.

What are these ways? You can beg for some capital to work for you today. You can steal it. You can win a lottery. You can borrow it. Or you can marry it. For most of us, begging is beneath us; winning the lottery is unrealistic; marrying wealth is, too. None of us wants to go to jail, and stealing is just wrong. For most of us, the only option to maximize the amount of capital we have working for us is to borrow it. As mentioned before, that should not be foreign to homeowners.

LAW 4

PAY YOURSELF FIRST

The 4th law in the wealth-creation process dates to biblical times. The Richest Man in Babylon was asked, “How did you become so rich?” Here was his reply.

Before I went out into the workforce, I made sure I studied my associates, my friends, and my parents’ friends. I noticed a common pattern in their behavior. On Monday morning, they would go out and work as they would on Tuesday, Wednesday, Thursday, and Friday. On Friday afternoon, they would be involuntarily taxed at 50%. Then, voluntarily, they would pay their bills and buy groceries. At the end of the day, they had $0 left over.

> The richest man in Babylon was asked: “How did you become so rich?”

No problem. The next week, they went out and did the same. So, it became a lifelong process. After 40 years, they had saved $0. So, I observed and thought this was strange. Here are my friends, my associates, my parents’ friends, all working an entire lifetime, 40 years, and at the end of that time they are bankrupt. That doesn’t make any sense. So, I asked myself one simple question: “Who is the most important person on earth?” and that answer was a resounding “me”.

Logic suggested I structure my expenditures to reflect that priority, so I did. At the end of the week, I had to pay taxes involuntarily. All I did was shave off 1/10 of my gross, set it aside, and live on the balance. In other words, I started to pay myself first. At first, it was difficult, but over time I conditioned myself to live on 90%.

Today, that discipline and the monthly amount that I have set aside have made me the wealthiest man in Babylon. So, in summary, you can see that being disciplined, by being consistent and abiding by the law that a part of what I earn is mine to keep, creates wealth.

LAW 5

Invest for the long-term

For the 5th law in the wealth creation process, let’s look at some successful people. If we roam the world and ask the question, “Who are the most successful people in the world?”

Names that come to mind are Elon Musk, Jeff Bezos, Bill Gates, Warren Buffett, Mark Zuckerberg, and Galen Weston. These are some of the world's most successful businesspeople. Like them or not.

So how did they become successful?

Before getting to the answer, let's see if there is a commonality between them and us.

So let us “ask” them some questions. “Mr. Gates, when you think about investing, what are some of the stresses you feel pertaining to capital that you are just about to allocate?”

Mr. Gates will tell you that whenever he invests, he makes sure to preserve his principal because he hates losing money.

So, principle #1 in investing is: don’t lose your capital.

> “Mr. Buffett, whenever you invest, sir, what causes you the most anxiety?”

Well, Mr. Buffett would say, “In addition to what Mr. Gates said, I want to make sure I grow my capital at a reasonable rate of return – a better-than-average rate of return, actually – better than inflation after taxes.”

Again, growth of principal is a commonality between Mr. Buffett and all of us here.

“Mr. Weston, when you invest, sir, what are you most concerned about in addition to what Mr. Warren Buffett and Mr. Bill Gates just said?

Mr. Weston would almost certainly say to you that he hates to pay taxes. Is that something we have in common with Mr. Weston? We all hate paying taxes.

We can summarize by saying investors from Wall Street and Bay Street to Main Street have three things in common:

- We want to preserve capital
- We want to grow our principal at an above-average rate of return; and
- We want to minimize taxes.

> “Who are the most successful people in the world?”

“So, Mr. Gates, in terms of objective #1, which is preservation of capital, how do you go about preserving capital?” Mr. Gates will tell you, “Whenever I make an investment, I check that investment to make sure it represents the highest quality business that money can buy. I only buy high-quality assets. I don’t buy junk. And it is the ownership of high-quality assets that gives me the solace that I will preserve my capital.”

“Mr. Buffett, how would you go about growing your principal at an above-average rate of return?” Mr. Buffett would clearly say to you, “In addition to what Bill Gates just said to you concerning preservation of capital, in fact, the first rule is don’t lose your principal. I will make sure that those high-quality assets that I buy are always residing in a strong, long-term growth industry." Therefore, for growth of principal, it’s a marriage: the combination of quality + quantity residing in a growth industry. That combination has and will give me an above-average rate of return.”

“Lastly, Mr. Weston, how do you go about minimizing taxes?” Mr. Weston will say to you, “To minimize taxes is quite simple. In addition to owning only high-quality assets in strong growth industries, I simply hold those businesses for the very long run.” “How long is the long run Mr. Weston?”

“Very long. In fact, I inherited most of my shares in Loblaw from George Weston many years ago.”

> “How long is the long run, Mr. Buffett? When do you sell, Mr. Buffett?”
>
> “Never!”

We can summarize what these gentlemen have said about conserving capital, growing it, and minimizing taxes in a single statement. They all buy excellent businesses and hold them for the very long run.

Drawing on forty years in financial services, this document reflects the knowledge and experience that shaped my practice. I gratefully acknowledge Warren Buffett, Michael Lee-Chin, Gerald Coleman and Wayne Cotton as mentors and motivators.

- Dave Shortill

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