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## Spring 2012 Newsletter

### Micro Financial Planning verses Macro Financial Planning

The Leap System using the Wealth in Motion software allows you to analyze each financial decision from both a micro and a macro point of view. Micro is how the decision affects you today and macro is how it affects you at retirement and life expectancy (estate).

Unfortunately, many people only look at their financial decisions from a micro point of view. This is because they do not have a model to evaluate their decisions. The Wealth in Motion software uses the Leap model to evaluate any financial decision one could make. Here is an example of how a micro planning initially looks good but in the macro world it does not.

#### 15 year mortgage compared to a 25 year mortgage – Client age 35

Let's look at a \$400,000 mortgage at 5% with monthly payments of \$3,163 for the 15 years and \$2,338 for the 25 years. From a micro point of view we have all been told that with a shorter term mortgage we will pay less interest. This is correct as the total interest is \$169,371 for the 15 year and \$301,508 for the 25 year. This would appear to be the right decision, but we now must look at this decision from a macro point of view.

The macro approach would ask what happens if we invest the difference between the two mortgages in a RRSP. So with the 15 year mortgage, investing would start after the mortgage was completed. We would invest \$3,163 per month for 10 years. With the 25 year mortgage we would invest \$825 per month for 25 years. I have used the 25 year actual return of the TSX S&P after deducting fees. Here are the results:

- \$3,163 per month invested at 7.4% for 10 years = \$559,685
- \$825 per month invested at 7.4% for 25 years = \$712,237
- The difference \$152,552 invested for 5 years to age 65 at 7.4% = \$217,991

The additional wealth created by starting investing early is \$217,991 at age 65. The value of this additional wealth to the estate at 85 is \$518,082 after taxes. From a macro point of view, paying off your mortgage early will have a cost to both your retirement and your estate. Is there another strategy that would yield greater results and more protection? Yes! We encourage each one of you to view your financial life from a macro view. Our goal is to help you make better long term decisions.

We have recently developed three Great-West Life Segregated Fund portfolios. The Premier, Marquis and Arcadia Portfolios are unique and only available to our clients. Please see our rates of return on the reverse side. For more information, please contact our office.

Enjoy the spring and think summer!

Sincerely, David Demeyere

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