

Effectiveness Vs Efficiency in Financial Planning

Description

Order, sequence, precedence, priority. Whatever your discipline, whatever areas you choose to be an expert at, to ensure or maximize the chances of success there is an order of operations.

Whether you are a chef, pour concrete, develop software, or fly aircraft, you know that doing things in their proper order is critical.

In construction, a strong foundation is essential to the quality and safety of a building. You create frames before walls. You put the plumbing and electrical wires in before the plaster.

In cooking, when and in what order you prepare, mix, heat, and cool ingredients determines everything. Professional chefs even have an order in which they chop ingredients when they are preparing their [mise en place](#).

In medicine, doctors perform examinations and treatments methodically and in a logical, pre-determined order. In medical emergencies, whether in a hospital setting, a first responder, or someone who only has first aid training, everyone is meant to respond to every situation in the same order – [check, call, care](#); and when we reach the care stage, [airways, breathing then circulation](#).

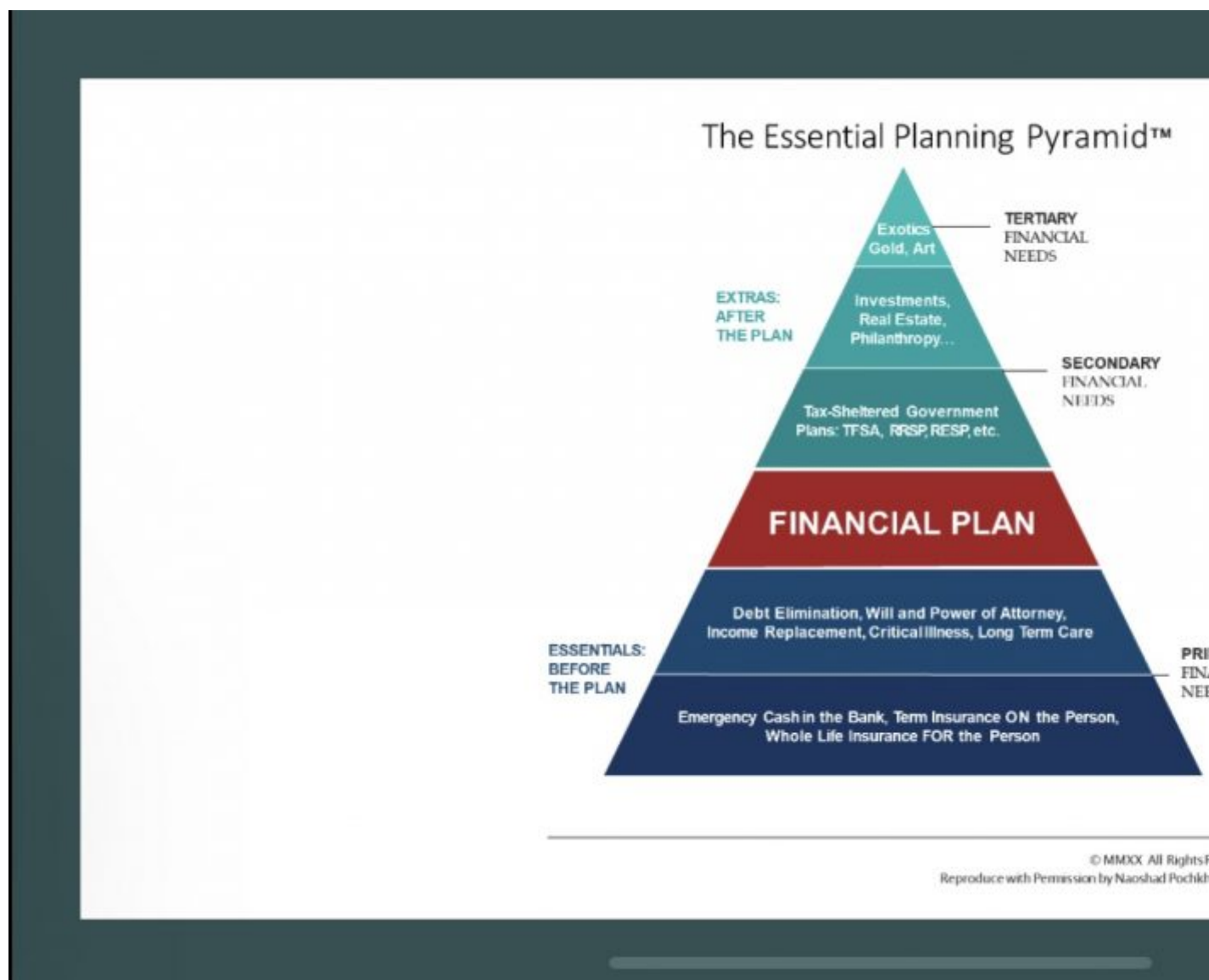
In every case, executing actions in a particular order gives structure to the process, increases the chances of a positive outcome, and provides the basis for dealing with unexpected problems that may occur later in the process. Having an order and outline for your life's wealth accumulation doesn't deserve any less.

If I may continue with the medical analogy, there are [primary, secondary, and tertiary needs](#). You don't treat someone's toe fungus when they're bleeding out on the examination table.

Similarly, you don't focus on how to minimize your OAS claw back in 40 years' time if you're worried that your mortgage may be foreclosed on next week. In medicine, you first focus on keeping the person alive. In the world of finance being alive means having cash flow.

Cash flow means you can pay your bills, retain assets, pay down (or at least maintain) credit, and not

stay up at night worrying about upcoming bills. In a market crash, cash flow means the ability to buy discounted assets. Cash flow creates options.



Thanks to Jim Ruta for the updated pyramid

The pyramid above illustrates the recommended structure for a financial plan. It isn't a hard and fast rule or a perfect analogy. We do many things in parallel or circle back to increase them if appropriate. It does however provide a framework from which we can build.

The first stage of a person's financial plan should be focused on ensuring their and their family's immediate cash flow needs are protected. Add to this starting a tax-efficient, low volatility, long-term capital building program, and a short-term savings solution, and you're off to a fantastic start. You also want to make sure you have your wills, and POA's for property and personal care all in order.

The second stage is how you can optimize your return on dollars where you look at funding RRSPs, RESPs, TFSAs, and various other acronyms to reduce the tax you pay on income and assets.

Then you look at more elaborate and less liquid investments with them getting more eclectic and

specialized as you go higher. In the top third of the pyramid, you may put an income property or select business investments, whereas at the very peak you'd be talking about specialized interest investments that are mostly the domain of the very wealthy or the professionals – postage stamps, collector cars, jewelry, etc. You'll notice that not only are these not necessarily very liquid, they also don't generate income.

Effective financial planning is knowing that there is money there when you want or need it without gambling on your present or future.

CATEGORY

1. Financial Planning
2. Wealth Creation & Economic Confidence

POST TAG

1. financial philosophy
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3. investing
4. planning pyramid
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