

## Time to reset your priorities

Debt-free bigger priority than retirement savings

**Jonathan Chevreau, Financial Post**

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While Ottawa makes noises about boosting financial literacy, it's curious that this country's 289,000 financial advisors seldom talk about debt.

The industry thinks it's OK that 40% of Canadians now retire with some debt, with many going deeper into hock once they stop working. Little wonder that 1,000 or more Canadians 60 years or older declare bankruptcy every month.

Whether old or young, becoming debt-free should be a bigger priority than retirement savings. Fortunately, the behaviours required to get out of debt -- frugality, the ability to plan and defer instant gratification -- are similar to those needed to build wealth.

A cynic might argue advisors focus on building wealth over reducing debt because it's difficult to get paid for counselling the latter. In fact, it's not unusual for aggressive advisors to go the other route, recommending leverage such as borrowing against homes to buy stocks or equity funds.

Increasing indebtedness may or may not benefit clients, depending on markets, but it will speed the retirement of the leverage-peddling salesperson. Unfortunately, there is no standardized training for advisors to help clients deal with debt and analyze the financial behaviour that got them there, explains Halifax advisor and author Stephane Holmes-Winton. She's on a self-appointed mission to teach other advisors how to work with clients on both sides of the household balance sheet.

She says she's changed more lives with her financial philosophy and spending tips than any mutual fund could hope to. "Advisors are starting to listen, but the public is still vastly unaware of this gap in the education of those they trust to dispense the advice they need," she says.

Ms. Holmes-Winton has self-published a book, *Defusing the Debt Bomb*, on how advisors can deal with client debt.

In an interview, she confesses that in a previous job in the industry, she told her boss she planned to tell clients how spending and understanding debt affected their overall wealth. She was told to "mind her own business." Clearly, her manager's business focus was more on building assets for the firm than on maximizing client wealth.

Last week, the Investment Funds Institute of Canada published its Value of Advice Report, devoting a section to financial literacy and noting the critical role advisors play in boosting the public's knowledge. The rest of the report mainly talked about financial vehicles such as mutual funds, RRSPs and TFSAs. Nowhere in the report's 18 pages did I see any reference to debt.

Highview Financial group director Dan Hallett questions how much training on debt is necessary. When he got his CFP designation 15 years ago, the curriculum devoted only a small section to debt and cash-flow management.

"What do you really need to know other than 'spend less than you make' or 'prioritize debt repayment by highest after-tax borrowing cost?'" Unfortunately, sayings like "spend less than you make" are more easily said than done. There's a huge gap between knowing what should be done in theory and actual practice. I know this from bitter personal experience.

Two years ago, I gave a copy of my book *Findependence Day* to a couple who read it and said they enjoyed it. The book emphasizes paying off credit card debt ahead of retirement savings and says a paid-

for home is the foundation of financial independence. But this was all water off a duck's back for them. Today, this couple appears to be on the brink of joining other 60-plus seniors in the bankruptcy stats.

Mr. Hallett argues successful management of debt and cash flow is more about discipline than knowledge. "This is about common sense and having the will to spend more efficiently." Merely boosting knowledge through more books, TV shows and websites devoted to financial literacy won't get the job done. I've concluded big-spending non-savers can't modify their behaviour without external help.

This is why, warts and all, I agree with IFIC that the right financial advisor has great value, particularly in the wake of the financial crisis.

I don't necessarily agree investors need advisors who receive lucrative embedded compensation through high-fee mutual funds. But I do believe fee-only advisors can add value even to self-directed investors with online discount brokerages.

If nothing else, you can be sure they'll remind you that no equity fund or ETF can match the aftertax return of paying off high-interest consumer debt.

[jchevreau@nationalpost.com](mailto:jchevreau@nationalpost.com)