Establishing an Effective Plan
The Art of Making Your Money Grow

Commission des valeurs mobilières du Québec

La version française de cette brochure est disponible sur demande.

Establishing an Effective Plan
The Art of Making Your Money Grow

Your road map to financial security through saving and investing

Knowing how to secure your financial well-being and that of your family is one of the most important things you'll ever need to know in life. No matter how much or how little money you have, the important thing is to get started. We'll show you in this brochure how a little money can grow to be a lot over the years.

At the Commission des valeurs mobilières du Québec, we enforce the *Securities Act*, which determines how investments are offered and sold to you. This Act protects investors, but you need to do your part too. Part of this brochure tells you how to check out investments and the people who sell them so you do not fall victim to fraud.

We can't guarantee that you'll make money from every investment you make, no one can. But if you carefully follow some easy steps, you should be able to watch your money grow. And enjoy what that money can bring you in the years to come.

You can do it! It's easier than you think!

Some people may stumble into financial security, a wealthy relative may die, or a business may take off. But for most people, the only way you'll get enough money to attain financial security is to save and invest over a long period of time.

And time after time, people of even modest means who begin the journey reach financial security and all that it means: buying a home, educational opportunities for their children, and a comfortable retirement.

Keys to financial success

1. Earn an income.
2. Don't spend it all.
3. Start saving.

What's stopping you from saving or investing now? List your reasons.

1. ____________________
2. ____________________
3. ____________________

Saving and investing not only enriches you and your family, but your investment dollars help businesses to grow, and our economy to grow stronger. And that helps everyone.

What are your thoughts on saving and investing?

"I have plenty of time to think about that later."

"If I had only known that years ago."

"What will my life be like when I retire?

"Where will the money come from?"

"I live from pay cheque to pay cheque.

"I'd invest if I had the money."

"I'll marry someone with money."

"I'll work till I drop dead."

"My kids will take care of me."

"I don't know how to save or to invest."

"Won't I lose money? Isn't investing risky?"

Imagine what you could accomplish if you had these thoughts running through your head instead:

"I know that I will have a far better chance of having more money in the future if I start setting goals and planning now."

"I can start small and watch my money grow. After all, even the tallest tree starts growing from a seed I can hold in the palm of my hand."

So, let's get started. By the end of this brochure you will have a plan for attaining your financial goals.

Your first step — Making a financial plan

What are the things you want to save and invest for?

- a home
- a car
- an education
- a comfortable retirement
- medical emergencies
- periods of unemployment
- caring for parents

Make your own list and then think about which goals are the most important to you. List your most important goals first.

Decide how many years you have to meet each specific goal, because when you save and invest you'll need to find a financial product that best accommodates your time frame for accomplishing each goal.

Know your current financial status

Sit down and take an honest look at your entire financial situation. You can never take a journey without knowing where you're starting from, and a journey to financial security is no different.

You'll need to figure out on paper your current situation — what you own and what you owe. You'll be creating a "net worth statement." On one side of the page, list what you own, these are your "assets," and on the other side list what you owe other people, your "liabilities," or debts.

Subtract your liabilities from your assets. If your assets are greater than your liabilities, you have a "positive" net worth. If yours liabilities are greater than your assets, you have a "negative" net worth.

You'll want to update your "net worth statement" every year to keep track of how you are doing. Don't be discouraged if you have a negative net worth. Simply arrange a plan to get into a positive position.

Know your income and expenses

The next step is to keep track of your income and your expenses for every month. Write down what you and others in your family earn, and then make a list of your monthly expenses.

Think of yourself and your family first

Include a category for saving and investing. What are you setting aside every month? Many people get into the habit of saving and investing by following this advice: Always think of yourself and your family first. Many people find it easier to "pay themselves" first if they allow their bank to automatically remove money from their pay cheque and deposit it into a savings or investment account. That way they are not tempted to spend the money.

To end up where you want to be, you'll need a roadmap, a financial plan.

STEP 1

What do you want to save or invest for? By when?

1. ___________________
2. ___________________
3. ___________________
4. ___________________
5. ___________________

Your Net Worth Statement

Assets	$	Liabilities	$
Cash	______	Mortgage balance	______
Checking and savings accounts	______	Credit cards	______
Cash surrender value of life insurance	______	Bank loans	______
Retirement plans (employer and RRSP)	______	Car loans	______
Real estate:		Other	______
-Home	______		
-Other	______		
Non-RRSP investments			
Personal assets(car, painting)	______		
Total	______	Total	______

STEP 2

Know your net worth

EXPENSES

But I spend everything I make!
How can I find money to save or invest?

If you are spending all your income, and never have money to save or invest, you'll need to look for ways to cut back on your expenses. When you watch where you spend your money, you'll be surprised how little everyday expenses that you can do without add up over a year.

How much does a cup of coffee cost you? Would you believe $232.92?!

If you buy a cup of coffee every day for 50¢, that adds up to $182.50 a year. If you saved that $182.50 for just one year, and put it into a savings account or investment that earns 5% a year, it would grow to $232.92 by the end of five years, and by the end of 30 years, to $788.75.

If you are willing to watch what you spend and look for little ways to save on a regular schedule, you can make your money grow. You just did it with one cup of coffee!

If a small cup of coffee can make such a huge difference, start looking at how you could make your money grow if you decided to spend less on other things!

If you buy on impulse, make a rule that you'll always wait 24 hours to buy anything. After a day has gone by, you may lose your desire to spend.

Now, once you have set aside some money to save and invest, what are your choices?

Step 3
Know your income and expenses

Monthly income and expenses

- Income:
  - Employment
  - Retirement
  - Investment
  - Other

  Total

Expenses:

- Housing:
  - rent or mortgage
  - electricity
  - telephone
  - property tax
  - furniture
- Food
- Clothing
- Transportation
- Loan/credit card interest
- Insurance
- Training/education
- Recreation
- Health care
- Gifts
- Other

  Total

Making your money grow

There are basically two ways to make money.

1. You work for money.
   Someone pays you to work for them or you have your own business.

2. Your money works for you.
   You take your money and you save or invest it.

Your money can work for you in two ways:

Your money earns interest. When you "put your money to work", it may earn a steady pay cheque. Someone in effect pays you to use your money for a certain period of time. When you get it back, you get it back plus interest. Your money can make an "income", just like you. You can make more money when you and your money work together.

You buy something with your money that could increase in value. You become an owner of something that you hope increases in value over time. When you need your money back, you sell it, hoping someone else will pay you more for it. For instance, you buy a piece of land thinking it will increase in value as more businesses or people move into your town. You expect to sell the land in five, ten or twenty years when someone will buy it from you for a lot more money than you paid for it.

SAVING

Products that provide interest income:
- savings accounts
- some chequing accounts
- bonds

Products that can increase or decrease in value:
- stocks
- mutual funds
- bonds, if you sell them before they come due

Products that provide regular income and that could increase or decrease in value:
- stocks that earn dividends
- mutual funds
- bonds, if you sell them before they come due

The difference between saving and investing

Saving

Your savings are usually put into the safest and most accessible places or products, such as savings accounts, chequing accounts, and certificates of deposit. Savings products sound appealing, but there's a trade-off for that security and ready availability. Your money is paid a low wage.

As a cautionary measure, some people put enough money in a savings product to cover an emergency, like sudden job loss. They make sure they have the equivalent of three to six months of salary in savings so that they know it will be there for them when they need it. But how "safe" is a savings account if you leave your money there for a long time, and the interest it earns doesn't keep up with inflation? What if you save a dollar when it can buy a loaf of bread, but years later when you withdraw that dollar plus the interest you earned on it, it can only buy half a loaf? This is why it's advisable to put some money into savings to prepare for the unexpected, but also to invest some money to earn more over long periods of time, say three years or longer.

Investing

When you "invest", you have a greater chance of losing your money than when you "save". But you also have the opportunity to earn more money. Investors protect themselves against this added risk by spreading their money among various investments; if one investment loses money, the other investments will more than make up for those losses. This strategy, called "diversification", can be neatly summed up as "Don't put all your eggs in one basket".

What are the best investments for me?

The answer depends on when you will need the money, your goals, and if you will be able to sleep at night if you purchase a risky investment.

For instance, if you are saving for retirement, and you have 35 years before you retire, you will be able to invest in riskier investment products knowing that if you stick to only the "savings" products or to less risky investment products, your money will take a long time to grow. One mistake to avoid is putting money you will not need for a very long time into investments that pay a low amount of interest.

On the other hand, if you are saving for a short-term goal, you don't want to choose risky investments, because when it's time to sell, you may have to take a loss. Since investments often fluctuate in value, you want to make sure that you can wait and sell at the best possible time.

What are investments all about?

When you make an investment, you are giving your money to a company or enterprise, hoping that they will be successful and pay you back with even more money.

Stocks and bonds

Most companies offer investors the opportunity to buy either stocks or bonds. The following example shows you how stocks and bonds differ.

Let's say you believe that a company that makes automobiles may be a good investment. After all, you know a lot of people who have bought their cars. Plus your friends report that the company's cars run well for years and rarely break down. You either have a dealer investigate the company and read as much as possible about it, or you do it yourself. After your research, you're convinced it's a solid company that will sell many more cars in the years ahead.

This automobile company offers both stocks and bonds. With the bonds, the company agrees to pay you back your initial investment in ten years, plus pay you interest twice a year at the rate of 10% a year.

If you buy the stock, you take on the risk of potentially losing a portion or all of your initial investment if the company does poorly. But you also may see the stock increase in value beyond what you could earn from the bonds. If you buy the stock, you become an "owner" of the company. You'll only make money if the company makes profits.

You wrestle with the decision. If you buy the bonds, you will get your money back plus the 10% interest a year. And you think the company will be able to honour its promise to you on the bonds because it has been in business for many years and doesn't look like it could go bankrupt.

Meanwhile, the company has a long history of making cars and you know that their stock has gone up in price by 15% a year, plus they have typically paid stockholders a dividend of 4% from their profits each year.

You take your time, make a careful decision and opt for the shares. Only time will tell if you made the right choice. As an informed investor, you should keep a close eye on the company to make sure your investment remains suitable for you.

Why some investments make money and others don't

You can make money in an investment if:

- The company performs better than its competitors because it is well managed.
- Other investors recognize it's a good company, so that when it comes time to sell your investment, others want to buy it.
- The company makes profits, meaning they make enough money to pay you dividends on your stock or interest on your bonds.

You can lose money if:

- The people running the company are dishonest. They misappropriate the money for their personal use.
- They lie about the business: they claim past or future profits that do not exist, they claim the company has contracts to sell its products when it doesn't, or they falsify financial information to dupe investors.
- Their competitors are better than they are and there is no demand for their products.
- The company is poorly managed and its expenses exceed its revenues.
- Other investors on the market think the business is a bad one, and that you'll only be able to sell your shares at a loss.

The basic types of products:

Savings
- savings accounts
- certificates of deposit
- chequing accounts

Investments:
- bonds
- stocks
- mutual funds
- real estate
- commodities
(gold, silver, paintings, etc.)

INVESTING

The main differences between stocks and bonds

Bonds
Bonds are debt securities purchased by a lender (investor) from a borrower (the company issuing the bonds). The company promises to pay back the money plus interest. Risk: If the company goes bankrupt, you have a right to any non-liquidated assets.

Stocks
Stocks are ownership shares in a company. If the company profits, its stock may go up in value and pay dividends. You could make more money than from the bonds. Risk: The company may do poorly, and you could lose a portion or all of your investment.

Mutual funds — A product managed by professionals

Because investors can't be experts in every field, they often depend on professionals who are trained to investigate companies and recommend the ones that are most likely to succeed.

Since it can be hard to pick the stocks or bonds of the companies that have the best chance to do well in the future, many investors choose to invest in mutual funds.

What is a mutual fund?

A mutual fund is a pool of money run by a professional or group of professionals. After investigating the prospects of many companies, they buy the stocks or bonds of certain companies and put them into a fund. Investors can buy a share of the fund, and their share rises or falls in value as the value of the stocks and bonds in the fund rises and falls. Refer to our brochure "*Mutual funds. Everything you need to hear*".

Investors pay a fee when they buy or sell their shares in the fund, and they pay the salaries and expenses of the professionals who run the fund while they own shares.

Who can help me invest?

Even small fees can add up, so you need to look carefully at how much a fund costs and think about how much it will cost you over the amount of time you plan to own its shares. If two funds are similar in every way except one charges a higher fee than the other, choose the fund with the lower cost.

Mutual funds appeal to investors because:

- You can invest with a small amount of money.

- Each mutual fund spreads its investments over a large number of companies so your investment is diversified. (You haven't put all your eggs in one basket.) If you have a small amount of money to invest, investing in mutual funds may be a good way to diversify your investments.
- The professionals who run the fund choose the investments and monitor the companies continuously.

If your job, family, or other responsibilities are keeping you too busy to look after your investments, or you feel you don't know enough about investing on your own, then you may need this type of professional investment advice.

You can get investment advice from most financial institutions that sell investments, including dealers, banks and insurance companies. Refer to our brochure *"Your Securities Broker or Financial Adviser – Choices for a Bright Future"*.

Dealers vary widely in the quantity and quality of service they provide for customers. Some have large research staffs, others specialize in particular types of companies, such as natural resource companies.

A dealer with an unrestricted practice (full-service broker) offers a wide range of investment, research, management and advisory services. Generally, this type of dealer bills its clients through commissions called brokerage fees.

A discount broker specializes in providing low-cost trade execution services for investors who are able to make their own investment decisions. Discount brokers do not provide advice or research services, and therefore charge lower fees and commissions than what you'd pay at a full-service broker.

A securities adviser specializes in advising clients with respect to investments, but does not execute trades like a dealer does.

A securities representative is the individual who works for the dealer or adviser.

One way to choose an investment professional is to start by asking your friends and colleagues who they recommend. Try to get several recommendations, then meet with potential advisers face to face. Make sure you get along (with the dealer or adviser and their representative), and make sure you understand each other. After all, it's your money. Also, check that the firm and representative you have chosen to do business with are properly registered with the Commission des valeurs mobilières du Québec.

Ask questions!

You can never ask a dumb question about your investments and the people who help you choose them.

Here are some questions you should ask when choosing an investment professional:

- What training and experience do you have? How long have you been in business?
- What is your investment philosophy? Do you take a lot of risks or are you more

WARNING!
Before you invest, always check with the Commission des valeurs mobilières du Québec.

- Has the investment been authorized by the Commission?
- Is the person selling this investment registered with the Commission?
- Has the person ever been subject to disciplinary measures by the Commission?

PROFESSIONALS

MONITOR

- Describe your typical client. Can you provide me with references, the names of people who have invested with you for a long time?
- How do you get paid? By commission? According to a percentage of the assets you manage? Another method?
- How much will it cost me in total to do business with you?

Your investment professional should understand your investment goals and your tolerance for risk whether it's for saving to buy a home, paying for your children's education, or enjoying a comfortable retirement.

Your investment professional should also understand your tolerance for risk. That is, how much money can you afford to lose if the value of one of your investments declines?

The best investment professional is one who fully understands your objectives and matches investment recommendations to your goals. And also, be sure it's someone you can understand, because your investment professional should teach you about investing and investment products.

How should I monitor my investments?

Investing makes it possible to put your money to work for you. In a sense, your money becomes your employee, and that makes you the boss. You'll want to keep a close watch on how your employee, your money, is doing.

But it's not enough to simply check an investment's performance. You should compare that performance against an index of similar investments over the same period of time. You should also compare the fees and commissions that you're paying to what other investment professionals charge.

Every time you buy or sell a security, you will receive a confirmation slip from your dealer. Make sure each trade was completed in accordance with your instructions. Make sure the buying or selling price was what your dealer quoted. And make sure the commissions or fees are what your dealer said they would be.

Watch out for unauthorized trades in your account. If you get a confirmation slip for a transaction that you didn't approve beforehand, call your dealer. It may have been a mistake. If it happens more than once, call the Commission des valeurs mobilières du Québec.

How can I avoid problems?

Your investment professional, whether he is a dealer representative or an adviser representative, has an obligation to recommend investments that match your investment goals and tolerance for risk. In fact, when an account is opened, the dealer or adviser fills out a form that contains information about investment goals and risk tolerance (this does not apply to discount brokers). The representative should not be recommending trades simply to generate commissions. That's called "churning". And it's illegal.

Choosing someone to help you with your investments is one of the most important investment decisions you will ever make.

While most investment professionals are honest and hardworking, you must watch out for those few unscrupulous individuals. They can make your life's savings disappear in an instant.

Securities regulators and law enforcement officials can and do bring proceedings against these criminals. But this doesn't always get your money back. Too often, the money is gone.

The good news is you can avoid potential problems by protecting yourself.

Let's say you've already met with several investment professionals based on recommendations from friends and colleagues, and you've found someone who clearly understands your investment objectives. Before you do business with this person, you still have more homework to do.

Make sure the representative and the dealer or adviser for whom they work are registered with the Commission des valeurs mobilières du Québec. And find out from the Commission whether the firm or its representative have ever been disciplined.

You should also find out as much as you can about any investments that your dealer or adviser recommends. First, make sure they are authorized by the Commission, and that either a prospectus receipt or a prospectus exemption has been issued. A prospectus is an information document on the company issuing securities to investors. A simple phone call to the Commission can save a lot of heartache.

Be wary of promises of quick profits, offers to share "inside information", and pressure to invest before you have an opportunity to investigate. These are all warning signs of fraud.

Ask your dealer or adviser for written materials and prospectuses, and read them **before** you invest. If you have questions, now is the time to ask.

- How will the investment increase in value?
- What are the risks?
- Where can I get more information?

Finally, it's always a good idea to write down everything your dealer representative tells you. Accurate notes will come in handy if ever there's a problem.

What if I have a problem?

Some investments make money. Others lose money. That's normal, and that's why you need a diversified portfolio to minimize your risk. But if you lose money because you've been cheated, that's not normal, that's a problem.

To start with, a simple phone call to your representative may resolve the problem. There may have been an honest mistake that the dealer can correct. If talking to the representative doesn't resolve the problem, talk to his manager, and write him a letter to confirm your conversation. If that doesn't lead to a resolution, call the Commission des valeurs mobilières du Québec.

Beware of promises of quick profits.

Investor complaints are very important to the Commission. You may think you're the only one experiencing a problem, but typically, you're not alone. Sometimes it takes only one investor's complaint to trigger an investigation that exposes a bad dealer or an illegal scheme.

Remember, it's better to be safe than sorry. You will definitely get the most out of your investments by being well informed.

GLOSSARY

Glossary

Bond: A debt security issued by a government or corporation borrowing capital on the market. Investors who buy bonds are lending their money, and in return they are paid interest on this loan. A bond is therefore a certificate of indebtedness.

Confirmation slip: A printed acknowledgement giving details of a purchase or sale of a security which is normally mailed to a client by the dealer within 24 hours of an order being executed.

Mutual fund: A fund representing a pool of money from investors that is managed on their behalf by professional money managers. In return for the money they invest, the investors receive units or shares representing their pro-rata share of the fund's assets.

Prospectus: A prospectus is a disclosure document prepared by an issuer — a company that wants to distribute securities to the public — which is distributed to potential investors. The prospectus must contain very specific information about the company issuing the securities. It describes the company and its business sector and contains the company's articles of incorporation, its history, a list of its directors, its financial statements, a description of the issue and the risk factors associated with the investment. Before it can be distributed to investors, the prospectus must be issued a receipt by the Commission des valeurs mobilières du Québec indicating that it complies with the requirements of the *Securities Act*.

Representative: There are securities dealer representatives and securities adviser representatives. In both cases the representative is the individual acting on behalf of the firm for which they work. A representative may be registered with only one securities dealer or adviser.

Securities: Investment products such as stocks, bonds, mutual fund units, etc.

Securities adviser: A firm that advises the public with regard to the purchase or sale of specific securities, either directly, through publications or otherwise. An advisor may also have discretionary management authority over a securities portfolio. The adviser must be registered with the securities regulator of the province or territory in which it does business.

Securities dealer: A firm that acts as intermediary in securities transactions. It carries out various functions relating to the transfer of funds between investors (e.g. an individual investor) and those who use the funds (e.g. the company issuing shares). The dealer may act as investment adviser, execute trades for institutional or individual investment accounts, and assist companies or governments in raising funds through share issues. The dealer must be registered with the securities regulator of the province or territory in which it does business.

Stock: A security representing an interest or ownership in a corporation. Investors who purchase the stock (shares) of a corporation are not lending it money, but rather putting their savings directly to work in that corporation. If the company prospers, the shareholders may also prosper, proportionately to the number of shares they own. However, if the company goes bankrupt, the shareholders may lose money. As a shareholder, you may receive dividends, which are a portion of the company's profits that it distributes to shareholders, proportionately to the number of shares they hold.

This brochure was produced courtesy of the Canadian Securities Administrators.

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