

The Stan Clark Financial Team

Financial fundamentals

The following are some fundamentals underlying our financial planning and investment philosophy.

Plan on a long enough life: Many people plan with too short a time horizon as they are reluctant to think that far ahead – despite rising life expectancies and the need to watch out for inflation over these longer periods. The average male can expect to live until 89. Someone who is healthier or luckier than average can expect to live to 94 (top 25%), and an over-achiever can expect to live to 97 (top 10%). Females live a bit longer, usually by two to three years. And couples live even longer, another three years, since you have to plan for two. While this table is for 60 year olds, those currently between 20 and 85 should expect the same, give or take one or two years. People currently beyond 85 are also expected to also live longer, just because they have made it that far already.

Life Expectancy for a 60-year-old

	Male	Female	Joint
Top 50% (average)	89	91	94
Top 25% (healthy)	94	96	98
Top 10% (over-achiever)	97	100	101

Watch out for inflation: Inflation has a huge effect over time. Money is only good for what it can buy. All analysis should consider the “real” value of your wealth. Studies show that people fool themselves by not properly considering the effect inflation has on their wealth.

Loss From Inflation Over Time

Time	2% Inflation	3% Inflation	4% Inflation
10 Years	18% loss	26% loss	34% loss
20 Years	33% loss	46% loss	56% loss
30 Years	45% loss	60% loss	71% loss

Appreciate the power of compound interest: Einstein called compound interest “the 8th wonder of the world.” Small differences in returns make big differences in results.

Compound Growth From \$100,000

Time	6% Return	8% Return	10% Return	12% Return
10 Years	\$179,085	\$215,892	\$259,374	\$310,585
20 Years	\$320,714	\$466,096	\$672,750	\$964,629
30 Years	\$574,349	\$1,006,266	\$1,744,940	\$2,995,992

The difference between 8% and 12% over 30 years is nearly \$2 million on an investment of \$100,000.

Sources: table 1) 2014 Canadian Institute of Actuaries Canadian Pensioners' Mortality Report; tables 2 and 3) calculations performed by Stan Clark, CFA, CFP, MBA

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