

Rich is a State of Mind
by Sheldon Gordon

**Jazzing up financial planning for
the 20-something generation.**

Personal finance books aren't necessarily a great read even when they offer great advice. Too often, they can be tedious and technical, whether written by financial journalists or investment industry pros. It's hard to imagine Dickens writing *Great Expectations* as a primer on investing in real estate, or Hardy writing *Far From the Madding Crowd* as a guide to buying value stocks.



Yet why can't there be human interest alongside compound interest? If war, love, faith and coming-of-age can be themes for great narratives, then why not the human drama of saving and growing money? In *Rich is a State of Mind*, Robert Gignac and Michael Townshend try to show that a book on building wealth may not be a bodice-ripper or a page-turner, but can still be a lively (and informative) read.

The authors are an unlikely team. Townshend has been a financial planner in Waterloo, ON since the late 1970s, and Gignac is a motivational speaker in Aurora, ON who has been Townshend's client for over 10 years. Gignac was evidently so satisfied with his advisor's counsel that he wanted to make it available to the widest possible audience of young people by co-writing this book with him.

In this case, art imitates life. The key characters in this "personal finance novel" are Richard Jarvis, an unmarried 50-something adventurer and outdoorsman, and John Linden, his financial advisor. They've made a pact that when one dies, the other will inform the next-of-kin. In the opening chapter, Richard does indeed die--after a fall from a horse--and John carries out his part of the bargain by delivering the sad news to family members from whom Richard has long been estranged.

But it turns out that Richard, while on the outs with his parents and siblings, did have a close relationship with his 20-something niece and nephew, cousins Joyce Jarvis and James Thomas. Over the previous year, Richard, John, Joyce and James had been getting together on a monthly basis to discuss financial concepts--of which Joyce and James were gloriously ignorant--and personal feelings about money.

The idea was to embark on a journey to create a financial blueprint for their futures. Most of the chapters are flashbacks to the important lessons that Joyce and James learned on the journey. Initially, they discuss the notion of what it means to be rich, and they focus on the importance of setting goals that are SMART, an acronym for Specific, Measurable, Realistic and Time-based.

The foursome then explores what Linden, the financial planner, calls The Eighth Wonder of the World, the power of compound interest. ("Is this some sort of math trick?" asks James before he gets his head around the concept. "Does everybody know this?" he asks once he appreciates its potential.)

They then move on to the principle of "Pay Yourself First," by which Linden means the need for "delayed gratification." He exhorts James and Joyce to make sure they commit a certain percentage of their discretionary income to savings (through either a direct deposit or pre-authorized chequing plan) before they use the rest for consumption.

Linden talks up RRSPs as a "money-making factory," allowing you to grow smaller amounts of money into larger amounts while sheltering the stash from taxation. This leads to a further discussion of the Canada Pension Plan, RRIFs and annuities.

Richard and John, the financial mentors, do a creditable job of explaining the basics of personal finance, not simply in theoretical terms, but with easy-to-follow calculations expressed in charts and tables. Nor do they spare their youthful protégés, Joyce and James, warnings about risk tolerance and what can happen if they neglect to diversify their assets adequately.

The book is also effective in debunking the myths surrounding debt, showing that not all debt is sinful. While it's true that rising numbers of young people in our society are using credit cards to charge their way into insolvency, James and Joyce also discover to their delight that leverage can be used constructively. Using a tax-deductible loan to top up an RRSP can make sense, and the tax hit is lower when you withdraw funds from a leverage account rather than from an RRSP.

Less impressively, the financial mentors recommend dollar cost averaging--the purchase of a fixed dollar amount of assets at regular intervals without regard to ups or downs in the market value. If the investor treats price dips as buying opportunities and surges as signals to ease up, he'll avoid the risks of trying to time the market, yet will end up with a bloc of shares bought at a low average price, according to the book's gurus. But academic research has shown that, despite its popularity with financial planners, the dollar-cost-averaging strategy is flawed.

Leaving aside that specific shortcoming, Rich is a State of Mind is a clever, entertaining volume that will, hopefully, instill basic financial knowledge into the 20-something generation. It may not be as exciting as a rock concert or a rave, but it definitely beats falling off a horse.

About the Author:

Sheldon Gordon is a freelance writer in Toronto who contributes to a variety of financial and high-tech publications.

