

Make more money with a professional plan

By Cameron Passmore

Very few people like to admit that the ability to make money—perhaps lots of it—was a motivating factor in choosing a career. Instead, we comfortably refer to the many other benefits that we can derive from a professional career.

Enjoying a well-earned business reputation, helping others, or intellectual challenge are all great reasons for pursuing a particular profession. Ignoring the reality that your career is going to pay for your life, however, makes no sense, and is a common problem many professional clients have.

Legal professionals are in a unique position when it comes to financial planning. Because they are in the responsible role of being advisers themselves, it can be difficult for lawyers to delegate to a financial adviser.

Creating personal wealth with a financial adviser involves delegating responsibility, following a goals-based plan and enabling your financial advisor to educate you and coordinate other financial professionals, from tax accountants to estate planners.

Lawyers who work in a firm can aspire to become a partner. Partnership comes as the result of hard work, dedication, billings and the ability to attract business to the firm. Many law firms see partnership as a permission to share in the profits of the firm.

At its simplest level, a law partnership is not unlike a perpetual thing: as lawyers become partners they borrow funds from a favoured bank and pay interest until they retire, at which point the debt is retired as the next partner comes into the firm.

My experience has been that while the firm may have assets—receivables, assets, goodwill—these are often not seen as true assets. Partners do not aim for equity, but for a share in the income of the firm.

A problem with this model is that it can be disastrous for partners to leave the firm. The value of the shares in the firm can be reduced, sometimes dramatically, if the partnership ends, or if key partners leave to establish another competing firm.

Independent lawyers face different concerns. In the absence of a large firm to fund growth and overhead, the independent lawyer must acquire the resources alone. Without the protection of a large firm, issues relating to disability and life insurance become crucial for independent or self-employed lawyers.

Often, only a life-changing event such as the birth of a child, loss of a friend or death of a loved one will jolt someone into action to see that these important areas are looked after properly.

My legal clients deal with risk daily. Accustomed to dealing with “worst-case scenarios” that can happen in a partnership, legal practitioners often protect themselves as much as possible on their own.

This risk protection might involve income-splitting, or ensuring that a spouse maintains ownership and title to the family home. Hedging risk might also mean that partners never pay off their partnership loan.

This familiarity with risk—and planning to avoid it—makes lawyers good candidates for professional financial planning. They are amenable to education and planning, and they are aware of the benefits of reducing taxes and investing.

Other risk is more difficult to manage. Purchasing life insurance, for example, or insurance for income replacement requires an exact understanding of an individual’s estate. You cannot insure yourself against loss if you don’t know what your net worth is, how much you owe, or what your retirement objectives are. At best, one can only guess and speculate. Guessing and speculation have no place in the financial planning process.

The good life is obtainable, but it will require a professional plan and some clear objectives. I always recommend that my legal clients meet me with their spouses in order to determine what they want their financial life to look like.

It is important to understand that your financial lifestyle is up to you. You can’t make it happen until you know what you want to happen. The first step in building wealth is to understand what your objectives and goals are.

A lifestyle that is high-consumption and low on saving and investing won’t last forever. Planning does not mean scrimping and doing without. It means deciding what you want (a cottage, bigger home, early retirement) and determining what factors in your current lifestyle—if any—will have to be curtailed in order to reach your financial goals and objectives. You might have to work to reduce your taxes, always a welcome result of planning, or leverage some other benefits of dealing with a professional financial planner.

Your initial goal is to move toward an understanding of what you want from your financial life. Once you know what you want, and your spouse agrees, you can start to build the plan to make your dreams come true.

Business is your servant

Too many lawyers view themselves as the servant of the firm. It works better the other way around: the firm is your servant. Make your business deliver the resources necessary for success. Your business is supposed to pay your salary, fund the business, provide for your saving and investments, and be operating in an efficient, tax-smart manner.

It should also provide you with the satisfaction of working in your chosen career, meeting with success and enjoying your work. If you are constantly battling financial issues or mired down in tasks best delegated to someone else, you need to question exactly who is the servant and who is the master. Your job is to practise law, not to moonlight as a well-intentioned financial expert who lacks professional training and skills. Ensure that your servant—your business—affords you topnotch financial planning expertise. You deserve it.



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