Building Wealth

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There are many definitions and meanings for the term 'wealth'. It is often said that it is easier to build wealth over time than it is to keep it! Some confuse high incomes with wealth while others point to assets owned as an indicator of wealth. And, many people use the terms 'assets' and 'wealth' interchangeably assuming they mean the same thing.

The distinction between these two concepts may have an impact on your actions and strategies as you work to build your pot of money or savings during your lifetime.

Retired BMO Harris Bank investment manager Don Coxe defined wealth as: 'Owning an increasing share of the world's resources'. While other commentators look at the price or cost of an asset as indicative of wealth. Yet, depending upon the circumstances, wealth can be as simple as having an electric generator during an ice storm or wood for the fireplace.

Often there is confusion between the price of an asset and the value or wealth that the asset represents. Gold mining billionaire and philanthropist Seymour Schulich addressed this confusion as one of many life lessons he learned in his 2007 book ***Get Smarter: Life and Business Lessons***.

He used the example of an average home in the Toronto suburb of Willowdale which was valued at $50,000 in 1975. Thirty years later the home had risen in value to approximately $500,000. The owner felt wealthier since his home had gone up ten times! But was he really wealthy?

Schulich says not really. His home is worth no more than that of his neighbors so comparatively speaking the homeowner was no wealthier today than he was thirty years earlier. One way to measure if the homeowner was wealthier was if he had gone from owning one home to three homes during that time. Much of the gain Schulich relates was due to inflation. And he expects that the same house will be worth 10 times more in the next thirty years with the level of inflation as in the previous thirty years.

The reality is there is no simple or magical way to build wealth. Sir John Templeton was famous for responding when asked about investing: 'The best time to invest is when you have money'. His focus was on buying quality assets and letting the magic of compound growth of business profits inevitably build wealth over time.

Today many people focus intently on the price of an investment in the short term while forgetting about the value of that investment in the future and the contribution that it may make to their long term wealth.

Media reports on the daily gyrations of the stock markets can lead investors to forget about their long term savings and wealth building goals. Daily movements in the TSX index of 80 points for example, get huge headlines without any context for what is a normal daily swing in princes.

Twenty years ago it was not uncommon for daily prices to move up or down 1% - 2%. That means index moves today of somewhere between 140 - 280 points would have once been considered as normal, with the TSX currently at about 14,000.

Ultimately the definition of wealth will vary with each person. But it is important for investors to take a long-term perspective and not let frequent price changes stir up their emotions and fears. Patience is the magic ingredient. Please call today to see how we can assist you in your journey!

Questions about your investment planning?

Contact our office today ! **[1]**

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