

Wealth Reflections

Insights on building, preserving and passing wealth
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Building Your Iceberg

By Gwen K. Harvey, B. Comm., CFP, CLU, TEP

At age 10, I came home from a glamorous birthday party, very impressed with both the bone china jewelry box that I had been given instead of a “loot bag”, and my new friend’s large home. I can only imagine the thoughts swirling inside my parent’s heads as they listened to my excited description of the indoor pool, five car garage and private movie theatre. How to provide some bearings to this little person? What to say? Their answer was to share a simple thought that has stuck to this day.

“Sometimes you see the wealth and sometimes you don’t. Sometimes wealth is in savings in the banks or it’s in investments. It is not always as it appears.”

Observing wealth in families has allowed me to confirm that indeed, it is not always as it appears. There are savers who live modestly and achieve financial independence in their 50’s. There are spenders that live wonderfully with a blind eye to the future.

In a world where many believe that reality is what they see, how do we decipher what is happening around us? When spending is so much more fun than saving, how do we become wise consumers and responsible savers?

In search of a way to encourage clients to thoughtfully build their financial independence, I developed the “Iceberg” analogy as a tangible way to deal with the subject.

Picture an iceberg – quiet, massive, solid. Most of its bulk lies out of view. Only a small proportion is visible above the water.

To become financially independent we each need to build an iceberg. What is above the water is what people see – our homes, cars, travel and lifestyle. What is below the water is what people don’t see – our savings, investments and business interests.

As we enjoy our lives above the water it is wise to build a significant asset base below the waterline. Only when the mass below is substantially larger than the amount above it, will we reach a point of long term sustainability.

Sometimes the funding of an iceberg may come from the successful sale of a business, an unexpected windfall or an extremely well timed investment. However for most people it will come from a disciplined decision to save part of what they make. To let what could have been spent today quietly compound below the surface and become a generator for future income.

Now with impressionable children of my own who are observing my withdrawals of cash from the ATM and the handing of credit cards to waitresses and shopkeepers, I am aware that it is important to provide them with the true picture of spending and saving. The Iceberg Analogy has been a useful tool at home. They may not “see” us save but they know we are building our Iceberg, accumulating for their education and our future retirement and financial independence.

If you have any questions about this, please give us a call.