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## YOUR PRACTICE

We continue to hear stories from advisors across Canada who are going ABOVE AND BEYOND conventional expectations to show clients how their money is being looked after.

BY DESSA KASPARDLOV AS TOLD TO DEANNE GAGE

# Deconstructing debt

Decreasing liabilities turns clients into winners.

**ABOUT ME** I educate my clients about the difference between good and bad debt, and how to capitalize on the good while getting rid of the bad.



KASPARDLOV

I created a system that I like to call Dessanomics, which increases a client's wealth while paying off their debt at the same time. It's not about going on a financial diet. It's about keeping and growing your money, saving for your retirement and paying back debt while continuing to live your life.

**How I work with clients** When I first got into the business, a company official would throw a phone book at you and say, "Call everyone and try to sell them something." The industry worked that way for years. But the fact is you can't sit at someone's kitchen table and try and squeeze blood out of

the stone. Everybody's in the same boat: People have a mortgage, line of credit, kids in school, and they don't

have any extra money. A lot of advisors don't want clients like that because they don't see any potential. But most of my clients are working families. I have clients who went from contributing \$125 a month PAC to making \$1,200 monthly RRSP contributions. Why? Because their balance sheets are stronger now than when I initially met with them. They learn how to be more efficient with their money.

Whatever we learn about money comes from our parents and/or grandparents and they

didn't have the kind of debts we have today. They didn't have car loans, student loans, credit card debt or lines of credit. And all of these things become very inefficient and expensive for the consumer to own.

Experts say people won't consolidate all of these liabilities because they're worried about sticker shock and they don't really want to know about how much they owe. But what I've found

is if you start to list things and put them in a balance sheet—assets on one side and liabilities on the other—very often the consumer has nothing and they're paying for it.

I had a client who had \$20,000 in his GIC accounts and that was truly his rainy-day account. He also had \$2,500 in his savings account. But on the liability side, he had \$18,000 in his line of credit and \$4,500

in credit card debt. If you look at those numbers on a balance sheet, the assets and liabilities are the same number.

Then you start to look at the cost of that. On the asset side, he's going to pay income tax on the interest he generates on the savings, which is about \$300 a year. On the liability side, we looked at the cost of securing that debt. When we looked at the interest cost alone, it was around \$2,100 a year. So he's making principal payments on money he doesn't even own. And he's got to find money and pay income tax to fund that false sense of security that he doesn't even really have.

If you get this client to consolidate his debt, this will free up the cash flow. Then we can put some money, for example, in his RRSP and then take the refund and pay down the debt. This will be more efficient and the client will be able to accomplish several things: Put money away for himself; save income tax and have enough left over to put some life insurance in

place because he doesn't have enough.

**My philosophy** You can't advise somebody until they understand there's a need or they've got a problem and you've got a solution. Most people don't even understand they have a problem until they sit down and dig deep.

Moshe Milevsky, associate professor of finance at York University and executive director of the Individual Finance and Insurance Decision Centre in Toronto, says debt consolidation is not widely practised because the magnitude of loss is not widely understood. What I say is the magnitude of loss is massive because nobody has layered all of the components yet.

**Why I matter** More than ever, Canadians need great financial leadership from professional advisors like me. People do not learn financial skills in school. They also need someone who can keep emotions out of the equation and keep them on track to their goals. **AER**

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