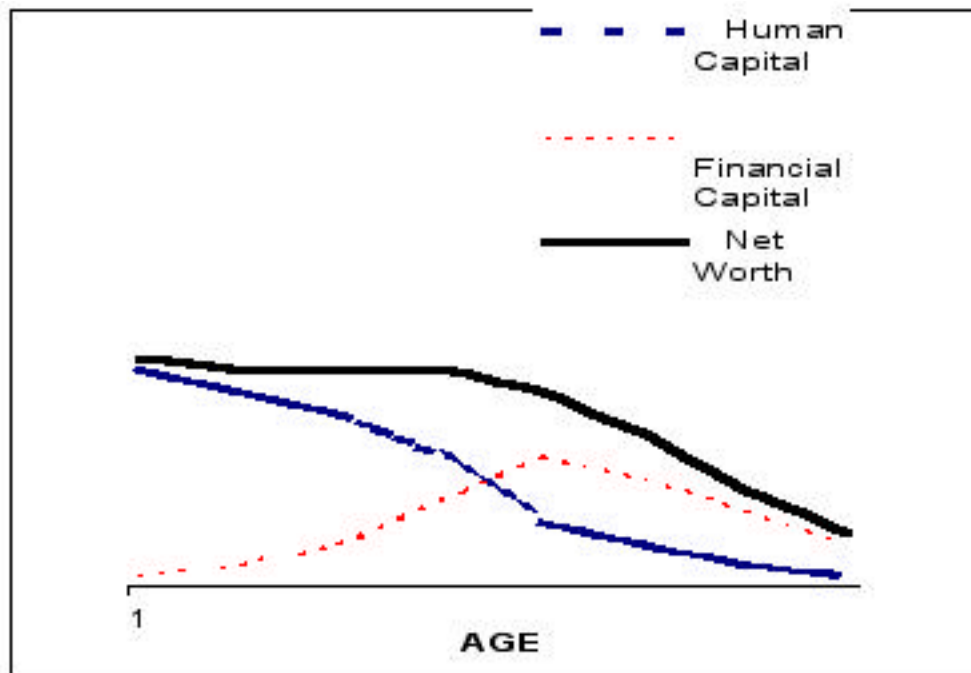


WHAT IS YOUR TRUE FINANCIAL VALUE?

In Calgary, we have seen many individuals lose their job in an oil & gas company, or more recently, in a high-tech company. Associated with this job loss are often worthless stock options. Many of us fail to realize that our biggest investment isn't our RRSP or pension, but our job. People have learned the hard way that investing in their employer can be poor diversification. If you don't recognize all the risks you are exposed to, your probability of success is decreased. One aspect that you should consider is the characteristics of your job in allocating your financial assets.

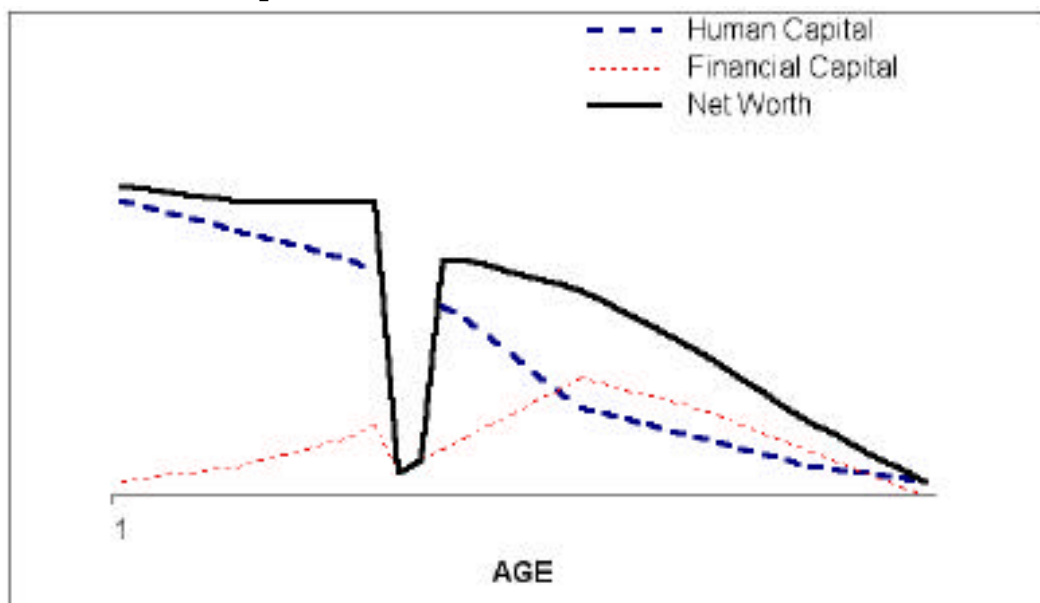


When looking at your components of net worth, you should consider both financial capital and human capital. Financial capital is your liquid and investable capital. Human capital is your unearned future income. Over your lifetime, you are continuously converting a portion of your human capital to financial capital while the balance is utilized for the daily costs of your lifestyle.

When you are young, human capital comprises most of your net worth – the net present value of your future income far outweighs your savings for most of us. Typically, 90% or more of your net worth is represented by human capital. As you progress in your career, you build up financial capital from the depletion of your human capital. The first graph demonstrates this conceptually. Your financial capital builds up gradually

in your early career years and then increases significantly in your later years. Usually during your retirement years, your financial capital will decrease over time to fund your retirement. Your net worth remains relatively constant over your career years, representing some combination of the two components. However, during retirement, most of us will experience a decrease in our net worth in order to fund our retirement span.

What is surprising is even in the later stages of your career, a high percentage of your net worth is attributable to your human capital. This is typically a time when you have a high savings rate focused on creating sufficient retirement capital.



If you took the first graph and put in a scenario of loss of income (whether through unemployment or disability) for a couple of years in your forties or fifties, the result would be a significant reduction of financial capital. This would severely impact your net worth and your plans for retirement. Thus, your decisions on what industry you work in, who you work for and whether you have adequate income protection are extremely important in terms of your overall success.

Similarly, recognizing the importance of the above should direct you to position your financial capital to mitigate the risk of your human capital, not enhance the risk of your human capital.

What is the value of knowing your human capital? There are a number of benefits such as:

1. You may decide that the industry you are in or the employer you are with is not appropriate for you and decide to make some form of career or employer change.
2. You may decide that protection of your human capital via disability insurance or critical illness insurance is much more important than you had originally thought.
3. You may decide to diversify your financial capital from your human capital. You want to ensure that your income and investment portfolio don't share the same ups and downs. For example, if you work in the oil & gas industry, you want to make sure that your investment portfolio is diversified away from the oil & gas industry.

Dr. Moshe Milevsky (PhD. Finance Professor of York University) has compiled the chart below showing the relationship of human capital to net worth for a typical Canadian family. It is based on Statistics Canada data for families of two or more utilizing a 2.5% discount rate and no inclusion of pensions.

TYPICAL CANADIAN FAMILY				
AGE	FINANCIAL CAPITAL	MEDIAN INCOME (after tax)	HUMAN CAPITAL (estimated)	HUMAN CAPITAL / NET WORTH
< 25	\$10,300	\$26,000	\$1,133,717	99%
25 – 34	\$47,500	\$40,500	\$1,110,843	96%
35 – 44	\$96,600	\$45,900	\$927,799	91%
45 – 54	\$165,800	\$53,200	\$621,240	79%
55 - 64	\$226,900	\$46,400	\$220,956	49%

NB Concepts for this article comes from Dr. Moshe Milevsky "Know Your True Worth" National Post Business March/2002.