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What to do when it's raining money

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About four years ago, Tony Mahabir, a certified financial planner, landed a new client with an exciting back story. An employee of an aviation company, the person was one of about a dozen co-workers splitting a $50-million-plus lottery win.

The windfall was a shock and, in some ways, a burden.

"The challenge with sudden wealth is everybody's knocking on your door," explains Mr. Mahabir, who is chief executive officer of CANFIN Financial Group, a Toronto-based wealth management firm. Family and friends come looking for handouts, charities ask for donations and unscrupulous money "advisors" lurk.

Not everyone comes into money quite so quickly or publicly, of course. Canadians become affluent in a variety of ways, from entrepreneurs selling a successful business to lucky baby boomers unloading their detached homes in Vancouver.

More millionaires are being minted all the time. According to the Capgemini World Wealth Report 2017, the number of high-net-worth Canadians – those with at least US$1-million in assets, not including their primary home – grew by 11.3 per cent in 2016, to 357,000. Their financial assets grew by 11.7 per cent, far exceeding the global growth rate of 7.6 per cent. The number of wealthy people increased south of the border by only 7.5 per cent during that same period.


Experts recommend sitting on sudden wealth until you are able to get your bearings.

But not all of those high-net-worth people feel like millionaires, says Mark Therriault, a partner and financial advisor with Nicola Wealth Management in Vancouver. That's partly because a million dollars doesn't go very far these days, especially in Canada's larger cities.

"The reality is that a millionaire – compared to 30 years ago – doesn't mean the same thing," he says.

Regardless, here is some advice from financial advisors to help the newly rich make sound decisions about their dollars and cents.

Slow down

A cash windfall can be a shock to the system, says Susan Bradley, a certified financial planner and founder of the Sudden Money Institute in Palm Beach Gardens, Fla. She is a longtime financial guru to North American lottery winners and others managing sudden wealth.

Recipients need help especially in the early days, whether they came into money through a lucrative business deal or hefty inheritance. "You tend to make some regrettable decisions when you're in the midst of that change, of that fog," she says.

Particularly if the money has come suddenly, Ms. Bradley recommends sitting on it until you get your bearings. Think months, not weeks.

After the initial shock or honeymoon period wears off, you'll be in a better position to decide how the funds should be handled.

Build a team

That waiting period is also a good time to put together a financial team: an accountant, a lawyer and financial advisor, for starters. This is no time to go solo, insists Mr. Mahabir.

"One person is not going to be able to handle a millionaire client," he says. You will need someone to recommend investment options, but you might need a tax-optimization expert, too, or someone who knows how to plan a business succession.

If you already have a financial advisor, that person might not be familiar with the specialized needs of wealthy clients.

"The reality is that high-net-worth and ultra-high-net-worth families do not invest like most retail investors," says Mr. Therriault. Examples are private equity, real estate, commercial mortgages and other alternative investments usually available only to the rich.

Stick to your guns

Like it or not, once you accumulate wealth you've got a target on your back. People will try to sell you the latest no-fail investment or wealth-making opportunity.

That's why it's so important to set goals first – then move on to investing. Want to sail the world? Buy a cottage? Leave a healthy estate for the grandchildren? Write down those plans before talking to anyone.

"Goals-based planning becomes critically important," says Mr. Mahabir. "That's the biggest challenge, because banks calling are suddenly selling products and services, as opposed to really listening to personal goals."

To insure or not to insure?

While it's easy to assume that with plenty of money comes a greater need to protect it through life insurance, that's not always the case.

In fact, Mr. Mahabir says that two of his wealthier clients over the years have opted out. They simply had so much money that if they died, there would still be plenty of funds available to help loved ones.

"If you can purchase your property with cash, you won't leave a widow stranded with a hefty mortgage," he says. So why have insurance to cover a non-problem?

In one situation clients placed a large lump sum into an investment account earmarked for their children's education. With the money safely set aside, there was no need to insure for education.

Mr. Therriault has seen that tactic come into play as well, but there are still good reasons to purchase insurance even if it doesn't make sense from a risk perspective.

"The reality is, if someone has a significant amount of wealth, he may not need insurance for risk management purposes – but may need it for estate planning or tax planning purposes instead," he says.