INTRODUCTION

Welcome to the second edition! A lot has happened since the first edition of this book came out in early 2009. As I read through the first edition to see what needed updated, it occurred to me that my opinions haven't changed. I still stand by 100% what said the first time – the stock market is no palace to trust your hard-earned retirement savings in.

But some sections needed updated. For example the whole chapter on CPP is revised for the new rules that came into effect after edition one was published. And here's a bonus: this edition now includes step-by-step instructions for you to compute exactly how much CPP pension you can expect.

Ok, let's start at the beginning

The period of time we lived through in 2008 and 2009 shifted the financial world on its axis. The old rules regarding personal finance are now history, as in obsolete.

This happened in the last quarter, the autumn of 2008. Let's call it "The Fall of 2008".

THE FALL OF 2008

During this period financial institutions that had existed for more than a century simply disappeared. World stock markets tanked. Entire investment portfolios were devastated. Retirement dreams wiped out.

What this series of events has done is show quite clearly the naked truth: traditional financial planning techniques don't work. In fact, if we had done the opposite of what the "experts" have told us to do to get ahead financially, we would be far better off today. Here are some of the past theories and the new reality:

- Trust the stock market to make us wealthy? Never again.
- Pay our investment advisor a fee of over 2% a year to try to beat the market? I don't think so.
- Risk our home trying to "make our mortgage tax deductible" by investing in mutual funds? Please, give me a break.
- Maximize our RRSP contributions religiously each and every year … and also save 10% of our income above that. You must be kidding, right?
- Borrow to invest – "leverage" our way to riches? Forget it. Many have tried; you can now find most of them in the poorhouse.
- Skip a cup of coffee to get rich automatically? Yeah, right.

I am not opposed to capitalism. We need efficient stock markets so that entrepreneurial people can grow businesses that flourish—businesses that create great products, deliver excellent services, hire good people, make profits and pay taxes.

The problem is that, obviously, markets have not been regulated satisfactorily. Businesses, especially financial ones in the United States, have been allowed to run rampant in the quest for riches. Thousands of intelligent, well-educated people making six-figure salaries and multi-million dollar bonuses spent years creating complex financial products that were sold to unsuspecting members of the public.

Ever heard of collateralized debt obligations? Mortgage-backed securities? Non-bank asset-backed commercial paper? What about income trusts? Or even mutual funds?

These complex instruments made many people rich. The people that invented them. The people that re-packaged them. And the people that sold them.

Unfortunately, the vast majority of people that bought into them got screwed. There's the homeowner with no job and no money who was convinced to take out a mortgage on his home and ended up losing it. There's the government, and you and me as the taxpayers, forced to shell out billions of dollars to buy into financial houses-of-cards just to keep them afloat. And of course, there's anyone who holds investments in these worthless companies.

ANGRY YET?

I am, and that's why I wrote this book. To give you hope. To show you that there is a way to get ahead financially. And you don't have to be a genius or trust a financial expert to get you there.

I am going to show you how you can do it with a guarantee that in the future your investments will never decline. I can say that because we won't be using the stock market. We won't even be using mutual funds. It is so easy to follow you won't even need to think about it for more than a few hours a year. It is so simple that once implemented you may not even need an investment advisor.

It's the plan laid out in this book that you can read in less than one day. After you read it you'll be able to explain it fully in five minutes.

WHY I WROTE THIS BOOK

I wrote it because I have received a lot of emails like this:

> *Good morning, David. I have just finished reading your book Smoke and Mirrors: Financial Myths That Will Ruin Your Retirement Dreams and I couldn't agree with you more. I am, however, concerned about my daughter and son-in-law who have this mantra that everything goes into the RRSP. I need to educate them and your line of thinking is what I need to approach them with.*
>
> *While my children are quite well off, I am scraping by – having lost most of my portfolio in the recent stock market crash while my husband was going through a major cancer operation and my portfolio was not on my mind and, sad to say, nor on my broker's mind. The good thing is hubby survived, but our belts are very tight as a result of looking the other way for even a few days.*
>
> Joanne

This email arrived in January of 2005. The stock market crash she was talking about was the crash of March of 2000. In 2008 I started to hear more such stories.

YOUR RETIREMENT JOURNEY

But does the whole idea of financial planning need to be so complex? If you listen to all the experts, you'll often end up confused. You may be thinking:

- My investment advisor is telling me I have to invest more but my existing savings have just gotten whacked in the market and I still haven't even recovered the losses – isn't this advice like throwing good money after bad?
- Getting my finances in order is going to be painful. Forget it. I want to live now!
- This is all so depressing. I never seem to be making much progress.
- All the standard retirement advice says that I'm on the wrong track. Jeepers, my unused RRSP room is huge!
- Personal finances are very complex; I can never get a good handle on what is going on with my money even after talking to my broker.
- I may never be able to afford to retire!

You know what? It doesn't have to be confusing or complicated. It never used to be – mutual funds only became popular at the end of the twentieth century, RRSPs were only introduced in 1957 and capital gains tax didn't even exist before 1972. The truth is that the whole subject of personal finance has been made complicated because it makes money for the people that run the financial system. It is designed to be complex so that these financial types can continue to earn six-figure salaries – off the hard-earned savings of the little guy and gal.

Let's make an analogy shall we? They want us to believe that the typical journey to retirement is like a trip down a river. A river is the best way to get there – walking is too slow. It's a complicated journey, so you'll obviously need a guide, right?

DOWN THE RIVER

We arrive at our advisor's headquarters to learn about the trip we are about to take.

"Welcome friends, you've come to the right place! We have been in business for more than twenty years and we know rivers like the back of our hands. Trust us – we'll get you to your destination safely."

The advisor goes on to describe the trip.

"Rivers are different and you never really know what to expect. We have accompanied our clients on thousands of river trips. We know what to expect! We know how to guide you through rough waters. Don't worry – let our experience be your guide!"

"Now step into the next office, where we'll teach you all about what you're likely to see and experience during the journey."

So you step through the door where you are asked to sign the "Know Your Client" form. This form is necessary for the advisor. It proves you OK'd some level of risk taking. If you read the fine print, you'll see that the onus is on you to protect yourself.

Now, in this case, the advisor doesn't know which river you're going to be travelling down. If he has had little experience, he may have only travelled down easy flowing rivers with nice scenery.

The more experienced advisors know that most trips are never soothing for long. They know the trip may be anything but.

If they were forced into full disclosure, they'd have to warn you of the truth:

Most retirement journeys using the stock market are like a journey down the river – the Niagara River!

UH-OH, IT'S THE NIAGARA RIVER

Here's what you should know before you begin the journey. According to Niagara Parks, an agency of the Government of Ontario, the Niagara River is 58 kilometres long, beginning in Lake Erie and ending in Lake Ontario. The elevation between the lakes is about 99 Metres (326 feet). About half of that elevation change occurs at one spot – Niagara Falls.

At Grand Island, the river divides into the west channel, known as the Canadian or Chippawa Channel, and the east channel, known as the American or Tonawanda Channel.

The Canadian Horseshoe Falls drops an average of 57 metres (188 feet) while the American Falls ranges from 21 to 34 metres (70 to 110 feet). That measurement is taken from the top of the falls to the top of the rock pile at the base, called the Talus Slope. The height of the American Falls from the top of the falls to the river below the rocks is the same as the Canadian Horseshoe Falls.

Sections of the river move quite slowly, but the speed of the water in the rapids just above the falls reaches 40 kilometres per hour (25 miles per hour). Speeds of over 100 kilometres per hour (60 miles per hour) have been recorded at the falls themselves. At the Whirlpool Rapids below the falls, water travels at about 50 kilometres per hour (30 miles per hour).

The great volume of water going over the falls is forced into a narrow gorge called the Great Gorge, where the Whirlpool Rapids are formed. The water surface here drops 15 metres (50 feet) and the water speeds reach 9 metres per second (30 feet per second). The whirlpool is a basin formed where the river takes a sharp right turn. The actual whirlpool is created by the "reversal phenomenon". Here, the water travels over the rapids and enters the pool, then travels counterclockwise past the natural outlet. When the exiting water tries to cut across itself to reach the outlet, pressure builds up and forces the water under the incoming stream. The swirling waters create a vortex or whirlpool.

Beyond the Whirlpool is another set of rapids that drops approximately 12 metres (40 feet).

"Are you ready?" your advisor then asks. "Let's jump into the boat then, shall we?"

Assume your journey to retirement is the 58-kilometre stretch from Lake Erie to Lake Ontario along the Niagara River. It would be an exciting trip, wouldn't it? Some parts would be calm and slow, others bumpy and very fast. There would be smooth sections and jaw-dropping plunges. There would be parts where you'd feel like you were going nowhere – spinning in circles. There'd possibly even be some rocky sections. Doesn't that sound like the typical trip to retirement using the stock market?

RETIREMENT JOURNEY: PLAN B

But is a trip down Niagara the only way to get to Lake Ontario? In personal finance terms, is trusting the stock market to carry our retirement nest egg to our destination the best way to go?

I don't think so. Personally I'd rather avoid the jaw-dropping plunges. Decisions like whether to go over the Canadian Falls, or the smaller American Falls with the rock slope at the bottom, are decisions I don't care to make!

I also don't like the idea of spinning around a whirlpool at a hundred kilometers an hour hoping I don't drown. And I'd prefer a smooth ride to one that might throw me out of the boat.

HERE'S WHAT THEY DON'T WANT YOU TO KNOW

Well, here's what they don't want you to know: you don't need to use the Niagara River. You don't need the stock market or mutual funds. You don't need to risk your financial life going over spectacular plunges or stagnating for endless periods of time going around in circles hoping you won't go under in the process.

You can take the guaranteed route—the safe road—and this book will show you how.