How to survive a windfall

The first step? Take a deep breath

BY WENDY CUTHBERT

Scott Hayman remembers standing at the counter of his local bank several years ago while a frazzled customer fumbled with her purse at the teller window beside him. She finally managed to pull out her cheque. Hayman couldn't help but notice that it was a provincial lottery cheque — for $12.2 million.

"And she was standing at teller services, just like anyone cashing their paycheque," he says, incredulous.

The moment has stuck in his mind. The experience taught Hayman, executive vice president and head of client services for investment-management firm Northwood Stephens Private Counsel Inc. in Toronto, which advises some of Canada's wealthiest families, a valuable lesson: most people on the receiving end of a cash windfall have no clue about how to handle their good fortune.

We've all heard the stories about lottery winners who manage to squander their winnings in short order. Chris Gudgeon of Victoria, author of *Luck of the Draw: True-life tales of lotteries and their winners,* recalls the case of Jimmy Cohoon, a shipworker in the Maritimes who won — and lost — $500,000 in less than a year. Cohoon was what one could delicately call "generous to a fault," giving his money away as if it were a prop in a game of hot potato.

"The last thing Cohoon remembered was throwing $50 and $100 bills off the balcony of the Scotia Square [shopping centre in Halifax]," Gudgeon says.

Although few of us will have the good

What do lottery winners do with their winnings?

	\$50,000 - \$1 mil.	More than \$1 mil.
Put money in bank	87%	90%
Paid off debts	61%	60%
Shared money with family/friends	53%	73%
Took a vacation	35%	56%
Bought a new car	34%	65%
Donated to charity	31%	48%
Paid off mortgage	25%	38%
Paid for education for self/family	18%	31%
Bought a house	12%	36%
Changed overall lifestyle	4%	14%
Bought a boat	3%	7%
Sought professional advice	65%	95%

SOURCES: ONTARIO LOTTERY AND GAMING CORP.; MILLWARD BROWN TORONTO, JANUARY 2006

fortune of winning a lottery in our lifetime, many Canadians will hit a jackpot of sorts in the coming years, thanks to the \$1-trillion inheritance wave, already underway, as parents of baby boomers transfer their wealth to the next generation. According to Decima Research Inc. of Toronto, about one-third of Canadians have already realized some inheritance, to the tune of about \$56,000 on average each. And that figure is expected to swell as the more financially comfortable baby boomers move through the system. In fact, Decima estimates that over the next two decades, 56% of us will receive an average inheritance of about \$300,000.

Most of us tend to think that we would be prudent if we found ourselves on the receiving end of a windfall, but it never fails to surprise financial advisors how quickly the well dries up when planning is pushed aside by the heat of the moment. Hayman has had to rein in several big spenders who simply couldn't stop consuming. The "only the best will do" mentality can quickly wipe out even an impressive bank account.

Patrick Mullins, first vice president and portfolio manager at investment dealer Richardson Partners Financial Ltd. in Ottawa, whose client roster includes several instant millionaires from the tech boom in the '90s, says that behavioural science accounts for the proclivity of the nouveau riche to spend like there's no tomorrow.

"There's a tendency to extend recent experience forward, without thinking about the likelihood of [a windfall] recurring," he says.

An anecdote that has made the rounds at Richardson is of a multimillion-dollar lottery winner who thought he would save money on a family trip to Florida if he had everyone drive down. The only problem? He ended up spending tens of thousands of dollars even before he hit the road, snapping up a couple of vehicles so that his siblings could drive to the sunny state in style.

So, what should you do if a financial windfall drops in your lap? Here are a few tips from the experts:

Breathe

Take time to sit back and think about what you really want to do with your new-found wealth, says Marc Lamontagne, a fee-for-service financial advisor with Ryan Lamontagne Inc. in Ottawa.

Lamontagne had a young man walk into his office several years ago looking for help in making the enviable decision of whether to accept his Cash for Life winnings of \$2,000 a week for life or take a healthy lump sum of slightly more than \$1 million. Lamontagne advised the client, who was only 24, to take the cash for life — and to take out a life insurance policy to offset any concerns that his beneficiaries would be left high and dry if he were to pass away unexpectedly.

Although, in that case, the young man had to make an initial critical decision in a relatively short period of time, Lamontagne says, any further decisions should be delayed once the money has been collected. "When someone has these windfalls, my first inclination is to tell them not to make any major decisions," he says. "You need to take the time to think about what you want."

In fact, he recommends clients take a long vacation to consider what they would like to see change in their lives and, potentially, the lives of their family members.

Stepping back also prevents rash decisions and their fallout. Patricia Lovett-Reid, senior vice president at Toronto-based investment dealer TD Waterhouse Canada Inc., recalls a young woman who won \$1 million in a lottery. The winner's immediate thought was: "I'm quitting my job." But Lovett-Reid crunched some numbers and pointed out to the 30-year-old that, with a balanced portfolio and living on \$60,000 gross a year, the funds would last only slightly past her 63rd birthday; she was not exactly set for life. So, the young woman went back to school instead, and pursued a career she loved.

Emotional paralysis

There's bound to be some emotional stress following a windfall. Windfalls resulting from positive events, such as a lottery, sale of home or large bonus, are usually much easier to deal with than those associated with negative events or crises, such as the death of a loved one, divorce or the loss of a job for which you receive a severance package.

In fact, people can become paralysed by windfalls, Lovett-Reid says. For instance, one woman Lovett-Reid met kept working at a job she loathed for five long years after her husband died. She didn't realize she could afford to quit her job because the money took on an "easy come, easy go" status in her mind, a common side effect of inheritances. "You think if something unfortunate brought you into money, it can take it away just as quickly," Lovett-Reid says.

Following a windfall — be it a lottery, an inheritance or a severance package — there is bound to be emotional stress. With proper planning, that large sum of money can change not only your life but also the lives of your children and grandchildren

People need to understand that it's important they work through their emotions, positive and negative, after a windfall. In the meantime, Lovett-Reid recommends individuals park their money in a short-term guaranteed investment certificate or money-market account. "They can readily get at it when they want to," she says, "but it's not so accessible that they can make poor decisions."

Get some advice

It's no surprise that most people lose themselves — at least, temporarily — with new money, says Richardson Partners' Mullins: "It's kind of like a kid without a family. He or she doesn't have that cultural stuff that has been handed down."

But instead of keeping up with the Joneses by buying new cars, homes and electronics, Mullins recommends the nouveau riche study what the "old rich" tend to do. For instance, hiring an advisor who regularly deals with wealthy Canadians can't hurt, he says. With proper planning, a large sum of money can change not only the recipient's life but also the lives of his or her children and even grandchildren. "Start thinking about how to make this windfall part of your lifestyle," he adds.

Lovett-Reid says people should work only with an advisor with whom they feel completely comfortable. If you aren't working regularly with an advisor when your windfall comes, it's time to shop around by asking friends, colleagues and other professionals for suggestions. An advisor should take an inventory of your current assets and liabilities and create a cash-flow projection that illustrates how your lifestyle could change with this money, she adds.

Nor should people who have just received a windfall be shy about getting a second or third opinion on their financial plan, says Lovett-Reid. "Money is very personal," she says, so it's important you find someone with whom you connect. A professional advisor will understand that you want a few opinions before going forward, and will provide a fee schedule and client references to help you reach your decision.

Tales such as Jimmy Cohoon's aside, the majority of Canadian lottery winners are very prudent with their newfound wealth, maintains author Gudgeon. (For a breakdown of how they spend, see the table on page 46.) He remembers one new millionaire who treated himself to nothing more than a new automatic garage-door opener after collecting his winnings.

Don Pister, spokesman for the Toronto-based Ontario Lottery and Gaming Corp., agrees: "While people do want to have fun and enjoy the money, there's very much a sense of responsibility. People tend to be quite cautious."

Unfortunately, winners' friends and family often don't appreciate this sensibility, according to Gudgeon. "I've never talked to a winner who didn't have a friend or family member turn against him or her," he says.

It's not unusual for long-lost cousins to suggest a family reunion. And even the closest of families can be torn up over the distribution of lottery wins.

"There's an entitlement mentality," says TD's Lovett-Reid. She warns that handing out money willy-nilly to family members, while a completely natural temptation, should be avoided. "You could run into a situation in which it becomes economic outpatient care; people keep coming back as opposed to becoming more self-sufficient," she says. "You may be doing them more harm than good."

Lamontagne also recommends windfall recipients avoid lump-sum handouts, preferring instead that his clients set up formal trusts to allocate an income to those they want to help. That still gives the client control over the money.

"So, if you see your cousin Bob going nuts with the money, you can turn off the tap," he says.

He suggests would-be benefactors take the same approach with charitable giving, adding that the cost of setting up a charitable foundation is very little and it allows the giver to decide, each year, how to allocate funds to various organizations. Says Lamontagne: "It gives you that much more flexibility." •