2014 HSBCC Personal Finance Case
Into the Black

Life was good for Evan George. For the very first time, Evan was earning a decent profit off his new business, while maintaining his steady part-time job. It was an exciting feeling. Discretionary income was something Evan had never had before. Evan knew that now was the time to firm up a budget and consider some investment options. His challenge was determining how much money he could reasonably invest this year and maintain liquidity for his business and personal needs. Once that was solved, Evan also needed to evaluate which investment made the most sense for his current situation. Evan's goal was to have a personal financial plan in place by the end of the week.

Evan George

Evan had always been a bit of a risk taker. As a teenager growing up in Emerald Park, he would often bet his friends large sums of money on everything from sporting events to marks in school. This aggressive nature often worked out for him, as he excelled both in the classroom and athletically. Confidence was never an issue for Evan. He also enjoyed extreme sports and spent his winters snowboarding Backcountry Mountains and his summers kite-boarding on various Saskatchewan lakes.

After high school Evan moved to Saskatoon to take a Commerce degree at the Edwards School of Business at the University of Saskatchewan. He paid for his degree by accessing a student loan and bartending part-time throughout the year. Considering the substantial tips on top of the hourly wage, the bartending gig paid relatively well. In the summers, Evan also worked as a teller for Conexus Credit Union.

Upon receiving his Bachelor of Commerce from the University of Saskatchewan, Evan started up a sole proprietorship named Tune In. Tune In installed small televisions into the back of taxicab headrests, providing entertainment to customers while receiving a ride. Tune In sold advertising space on the televisions to various businesses and organizations, which generated the bulk of the company's revenue. Competing companies, such as Cab Vision, had utilized this business model successfully in major cities across the world. Evan noticed that no one had brought this idea to Western Canada and jumped on the opportunity. He maintained his teller position with Conexus while spending his evenings and weekends working on Tune In.

Between education and starting Tune In, Evan never had discretionary income to put towards saving for his future financial goals. After two difficult years of substantial capital investment and limited progress, the business had finally taken off this year and was earning a profit. Evan wondered if it was time to create a budget and potentially even consider various investment opportunities.

Evan's Personal Finance Situation

Evan had been living in his own apartment in downtown Saskatoon for the past two years. He focused on keeping his expenses as low as possible, knowing that was money he needed to invest into Tune In. An average month of expenses broke down as follows:

- Rent (One Bedroom Apartment) = $950
- Utilities (electricity, water, cable and internet) = $210
- Cell Phone = $75
- Vehicle (gas, insurance and maintenance) = $250
- Groceries = $175
- Clothing = $75
- Personal = $30
- Entertainment = $150
- Miscellaneous = $50
- Student Loan Repayment = $105

Evan has been diligently paying down his $10,000 student loan since graduation. He used the maximum 10 years to repay the loan at a fixed interest rate of 4.5%, which worked out to a monthly payment of $105. Evan will need to continue to pay this $105 per month for 8 more years to pay off this debt. He is unsure whether or not it would be a smart financial decision to pay off this debt sooner, assuming Tune In continues experiencing success.

Conexus Credit Union pays Evan $1,750 per month after taxes and deductions for his part-time job as a bank teller. He had also begun paying himself a monthly salary of $1,500 from Tune In. Of the Tune In salary, he had been separately saving 25% of it to go towards income tax and other deductions that he will be paying at the end of his fiscal year.

Investment Alternatives

Evan is considering investing either a portion or his entire personal monthly surplus. Through talking to his father, Evan realized there were numerous options. Like all investors, Evan was looking to maximize his return on investment for the level of risk he was comfortable with. However, he had some hesitations around locking in an investment where he couldn't access his money for an extended period. With the unclear capital requirements of Tune In, Evan considered it high risk to not maintain sufficient liquidity. A few of Evan's investment options included:

Anderson's Nickel and Dime Bank

- 5 Year Guaranteed Investment Certificate (GIC)
- Interest Rate = 2% compounded annually
- Principal and interest could be removed anytime after 6 months

Prevosts's Fly By Night & Co.

- 2 Year Bond
- Interest Rate = 3% compounded annually
- Money and interest remain inaccessible until the 2 year term is complete

Hemming's Mutual Funds

- All funds contain a 2% Management Expense Ratio
- All funds have aggressive tax implications for removing money from the fund at this stage of Evan's career
- Available funds include:
  - Income Fund
    - Low Risk
    - 4% annual net return (3 year average)
    - Fund gained 3% in 2008 (down year in the market)
  - Balanced Fund
    - Medium Risk
    - 6.5% annual net return (3 year average)
    - Fund lost 2% in 2008 (down year in the market)
  - High Growth Fund
    - High Risk
    - 11% annual net return (3 year average)
    - Fund lost 15% in 2008 (down year in the market)

There were a few other investment alternatives that Evan could consider. Evan's friends had recommended that he consider purchasing a house or condo in Saskatoon, to stop paying rent on his 1 bedroom apartment. He wasn't sure if this was a good idea or not.

Evan struggled to decide if he should continue to direct either all or some of his personal surplus back into Tune In. He had invested a grand total of $35,000 into the business since it's inception. Tune In earned a $20,000 net profit last year and Evan was predicting to earn $30,000 this year. Further capital investment would allow Evan to expand his marketing efforts into Alberta and British Columbia.

Moving Forward

Evan George had some challenging decisions to make. He wanted to make the best possible investment decision that still allowed flexibility for Tune In to grow. The other challenge he faced, was determining exactly how much money he would have to invest this year based on his budget. All of these decisions were overwhelming Evan. To clear his head, Evan wanted to develop a sound financial plan by the end of the week.