How to Manage Your Financial Windfall

A financial windfall may arrive in many forms - an inheritance, retirement payout, cashing out stock options, selling your business, and when it comes to the realm of fantasy, even lottery winnings. No matter what section of the sky it falls from, sudden wealth and financial windfalls turn their recipients into instant investors and money managers. Some will be prepared, others will need to learn quickly how to manage their new financial resources responsibly or it could all too quickly disappear without a trace.

Here are six "dos and don'ts" that might make the process financially safer and more rewarding:

Do – in the case of an inheritance – be patient

Settling an estate can take months or even longer in complex situations. Before an executor can release the entire funds of an estate, all costs and liabilities against the estate, including taxes, must be settled. Canada Revenue Agency must give its approval before the executor can disperse the remaining assets of the estate. This means that whatever the estate's value was at time of death could be substantially reduced after taxes and other obligations are paid. So be prepared. Don't spend what you won't have.

Don't adopt a lottery mentality

Be realistic about immediately acquiring large assets that were once beyond your means. Most large and expensive homes, automobiles, boats and so on also carry equally large operating and maintenance costs with them. Unless you already have a good income, expensive assets can quickly turn into expensive cash flow liabilities.

The days after receiving a financial windfall are not the time to be spending wildly. Place cash into a high interest account or short-term GIC and adopt a cooling off period of several months so you can carefully think about the kinds of acquisitions and expenditures that are important to you and your family in the long term. Give yourself time to adjust to your new financial circumstances.

Do be careful who your "friends" are

Many people make it a habit of keeping abreast of those acquiring sudden wealth and will be eager to help you spend your money. Here are three things to remember:

- Never discuss any financial matters over the telephone or via e-mail where you didn't initiate the call.
- If the investment scheme and payback potential sounds too good to be true – it probably is.
- If you are lending to friends, remember investments in their private ventures may make you a principal of the company or a part-owner and as such liable for its corporate actions. Do nothing without a lawyer's advice and a legal contract.

Do prioritize your debts and financial obligations

There is good debt and bad debt. Bad debt is your credit cards. At the other end of the debt spectrum are business or investment loans where the interest on those loans is tax deductible. Somewhere in between are relatively low interest mortgages. A massive windfall should see all debt retired. If that's not possible, then prioritize. Pay off all credit card debt immediately. Personal loans at high interest rates come next and then any mortgages on the home or cottage should take precedent over business and investment debt where the interest is tax deductible.

Don't take unfamiliar investment risks

Baby boomers close to retirement themselves will most likely incorporate any family inheritance into their own retirement plans. Experienced investors should integrate new found wealth into their existing portfolio planning. A windfall can be a temptation to take investment risks. Be careful. Better to reassess your portfolio's asset allocation with an eye to expanding into new asset classes and looking for selected quality investment opportunities that were hitherto out of your reach as an investor. Don't necessarily assume your risk tolerance has increased substantially just because you may have acquired investment capital you "can afford to lose."

Do seek professional advice

Investors who see their cash windfall as an investment opportunity should seek the advice of their Financial Advisor. He or she can work with you to revise your long-range investment strategy to reflect the new financial reality of the investor. The key to any financial windfall is to make sure that your "once in a lifetime opportunity" actually lasts a lifetime.

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