



Things A Financial Planner May Not Tell You!

MSN Money Dec 2007

1. What Qualifications? Not Important!

More people are flocking to personal advisors and more financial companies are flocking to financial planning these days to “help their clients.” Life insurance companies, banks, brokerage firms etc. all need financial advisors to help sell their products. They are convincing their clients that they need professional help to help navigate the market’s stormy seas. Unfortunately, not all planners are created equal. Many do not have the background or inclination to offer true comprehensive financial advice. Even if your advisor has a financial planning designation such as a CFP or RFP, you are not home free. It generally takes years of experience and ongoing education (not to mention integrity and ethics) to become a truly good planner. Make sure that, as a minimum, your advisor has one of the leading designations plus at least ten years of experience.

2. Where Are The Customers’ Yachts?

Real advisors take seriously their duties as fiduciaries-professionals who are trusted to think of their clients needs first and foremost - not their bonuses. Many big bankers still worry more about their bonuses than about their duties to their clients. Make sure all recommendations are free from any biases or “tied selling.”

3. How Do I Get Paid? Why Do You Even Ask?

Fees are a dirty word and hardly gets mentioned in most transactions. Investors think that if the fees are not seen (or are hidden), and that their investments must be “free.” Is there any bank service that is really free? Everyone needs to get paid but just make sure you are not overpaying and that you get your money’s worth re the advice given. Ask what do they make and what services can you expect to receive? Standard fees paid to investment advisors and financial planners start at 1% of assets. This amount may be larger for smaller accounts (below \$100,000) and smaller for larger accounts (example above \$500,000).

4. I Can Only Do A Little Bit of Your Planning.

A good advisor looks at every bit of their clients financial situation, from their budget to their estate planning. That is the only way to get truly customized, comprehensive advice. Too many planners however focus on one or two narrow aspects of a client’s plan.

What to Bring to a Meeting with a Planner

There are a number of documents you’ll need once you engage a financial planner. A comprehensive list may be customized by your planner for your specific needs. Be prepared to answer questions regarding age, income, hobbies, goals, philosophy on money, risk, group plans, etc. A narrowly focused financial plan will surely get you into trouble in the future. It could be taxation, inflation, estate or simply running out of money.

RECOMMENDED DOCUMENTS FOR A FULL REVIEW

- Bank Statements and Pay Stubs and Employee Benefits
- Credit Card Balances, Mortgage or Loan Payment List
- List of Assets and List of Liabilities
- Completed Expense Worksheet
- Wills, Trusts, Powers of Attorney, Health Care Proxy
- Business Agreements
- Titles for Homes, Cars, Real Estate, etc.
- Retirement Account Statements
- Expected government retirement pension
- Company Pension Benefit Statement and Booklet
- Investment Statements, Stock Options
- Life, Disability or Long-term Care Insurance Policies
- Business Liability, Director and Officer Insurance Policies
- Current Tax Return and Tax Estimate for Next Return

5. I Only Sell My Company’s Products!

The old saying goes like this: “*When all you have is a hammer, everything looks like a nail.*” Advisors who lack training in comprehensive planning often only know what their companies tell them about various investments they are told to sell. An insurance agent might sing the praises of how good annuities are for everyone while a stock broker might promote how good their company’s “stock trading skills are” and bankers encourage their “own services” as being the most convenient. Your planner should be able to converse regarding the benefits of equities, annuities, bonds, insurance, tax-efficient corporate class funds, index funds, individual pension plans, GICs, TFSA, IPP, RDSP, RRIFs, etc. Bottom line, your planner should be able to talk about many alternatives.

6. I Can Beat The Market (But Offer No Proof)!

Many people think that a financial planner can help them supercharge their investment returns. Many of the best financial planners, however, believe that they are doing their clients well if their portfolios are structured to either *lower their client risk* to meet their objectives or try to get *an extra 1% or 2%* more than the market averages if lower risk is not as important.

Trying for a 20% or 30% profit target is “gambling.”

Good planners do not even try this as it is a waste of time and effort - and a waste of clients' money. Those who try often fall woefully short. The more they trade, the more money they spend in commissions, fees and taxes and the further they fall behind their *written objectives and goals*.

7. I Will Not Save You From Yourself!

The best financial planners did not let their clients overdose on technology stocks in 2000 and insisted they stay invested during the roller-coaster ride of the past few years, no matter how much abuse they were given for that advice. The worse planners encouraged their clients to chase hot fads and hot returns, whether it was dot-coms or excessive investments in real estate. Many planners fall somewhere in between - trying to make the case for diversification and common sense, but lacking the confidence, experience and fortitude to insist their clients not make suicidal moves at the worst possible times. Avoid planners who do not have a consistent philosophy or who are constantly yakking about changes and the next hot trend that is coming. Really important news is not this month's quarterly earnings, why Christmas sales are up or why inflation is up. *Really important news* is the big stuff that you cannot predict such as the uprising in Libya or the crises in Japan. These move markets but unfortunately they are unpredictable occurrences (please read the book the "Black Swan" for reference).

8. I Like Moving Around!

The best financial planners do not keep moving around from firm to firm - the best planners may move once or twice in their 40 year career. The best planners may move to *offer more services* to their clients than their previous firm offered or they might move to be an *independent advisory firm* after working for a big bank, brokerage firm or insurance company. If a planner moves too many times it is either for their own interest (eg. earning higher fees), issues with regulators or following hot trends.

Don't play around.

The reality is investing successfully is hard. It is not a game that can be won on a regular basis.

Recently a presentation by Doug Lennick of the Lennick Aberman Group preached that one of the greatest flaws in mainstream financial theory is that it assumes investors will behave rationally. However, research has proven that investors, in fact, frequently will behave irrationally. During the session, Lennick made a simple, yet profound statement that financial products are not necessarily the problem. It is *the behavioral use of financial products* that leads to problems. Nearly a decade ago, Warren Buffett famously stated that derivative securities are "*financial weapons of mass destruction*". As he always seems to be, Buffett was absolutely right.

But, at the end of the day, I submit that it was not the derivatives themselves that brought our global economy to the brink of complete disaster, it was the way they were misunderstood, misused and (un)regulated that caused the collapse. In fact, the derivative products themselves did exactly what they were supposed to do! Like a gun, if used improperly, the consequences can be devastating. Very few realize that his company (Berkshire Hathaway) uses derivative positions extensively. A key difference between Buffett and Wall Street is the way they are used. Since making the more famous proclamation above, Buffett has also gone on record stating that "derivatives by themselves aren't evil."

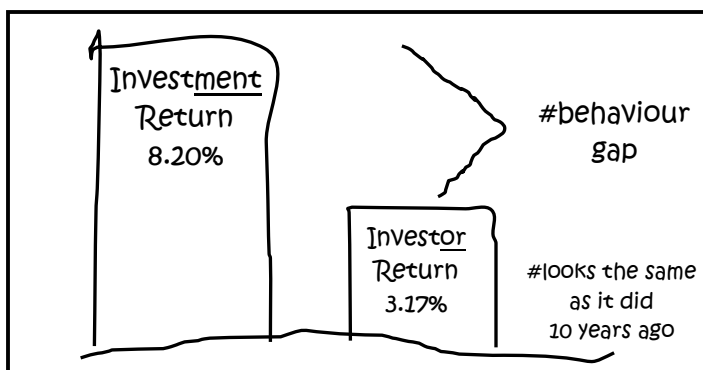
Inherently, all financial products "work." Every media pundit, financial expert, barstool adviser and brother-in-law has an opinion on where the country is headed, what to invest in today, what to sell and how we can save the planet from global economic collapse. I present two very simple predictions for this year and next, and for every year from now through 2025 and beyond:

1. Financial products will continue to do exactly what they are designed to do.
2. Investors will continue to make poor decisions with them.

Investment Returns Vs Investor Returns

This study looks at the 20 yr period ending Dec. 31, 2009:

- The average **investment** return was 8.20%
- The average **equity investor** return was 3.17%



If you had put money into an S&P 500 index fund 20 years ago and just left it there - just investing and forgetting about it - you would have earned (minus fees) about 8 percent. *But real people don't invest that way.* We trade. We watch CNBC and listen to Jim Cramer yell. Despite knowing better, we give into the genetic tendency to get more of those things that give us pleasure (buy high) and get rid of things that cause us pain (sell low). We're just wired that way. What is really interesting is how little this seems to change. When investing, the tendency to behave badly isn't going away. So what do we do about it?

While everyone else continues to try to predict where the S&P 500 will be at year-end, or what the price of gold will be in 6 months, I recommend you focus instead on simply closing the gap outlined in the previous image. These two simple truths will guide you in your efforts to better manage your investment behavior in the years ahead.

1. **Admit it.** Like any destructive behavior that first step to fixing it is to admit that there is a problem in the first place. Being honest with yourself and reviewing past decisions will help. Write down your actions and feelings in past financial crises.

2. **Develop a checklist.** Go through the checklist before you make major investment decisions. It will help you avoid mistakes in investment behavior, too. Try writing down the proposed change and then let it sit for 24 hours, or call a trusted friend or advisor and walk them through your thinking before you make the change. Often just hearing yourself explain why you want to make the change will convince you to forget the whole thing.

2001 - 2010 Canada's Decade to Shine

The past decade was Canada's to shine. There was a difference of 4% - 6% compared to the U.S. or the World markets. Over a long period of time, this is an amazing amount of over performance. But... *will Canada continue to outperform at such a high level in the upcoming decade or will they repeat as laggards as in the 1990s?* Review the past 10, 20 and 30 years. Being in the right place at the right time is much better than being skillful or smart. Canada has been the "perfect investment place" over the past ten years much as U.S. was in the 1990s and Japan was the perfect place to invest in the 1980s.

1980s	1990s	2000s
28.1% Japan	20.9% U.S.	5.6% Canada
18.0% U.K.	16.7% U.K.	4.9% Asia
17.4% U.S.	16.4% Europe	-1.0% Europe
16.5% Eurpe	12.0% Asia	-1.9% U.K.
12.2% Canada	10.5% Canada	-4.1% U.S.
11.9% Asia	1.4% Japan	-6.8% Japan



Cdn \$

Performance by the decade and include all reinvestment of dividends. Source: Globe Hyales

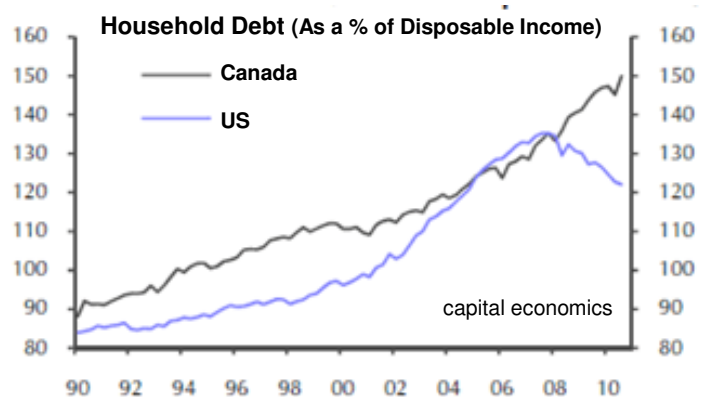
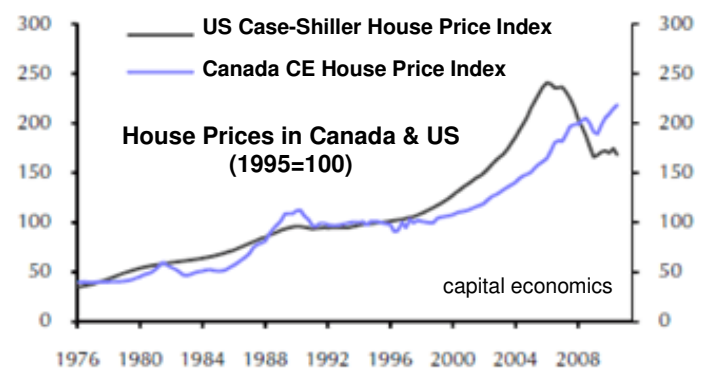
INDEX RETURNS (Cdn \$)	1 yr	2 yr	3 yr	5 yr	10 yr
Inflation (CPI) to Jan 31, 2011	0.46%	0.45%	1.22%	2.42%	2.70%
T Bill Index	1.99	1.97	2.29	2.70	3.03
Average 5 yr GIC	2.09	1.97	1.67	1.66	2.01
DEX Bond Index	4.35	6.35	5.82	5.30	6.21
TSX Composite Index	25.48	28.57	4.09	5.47	6.21
S&P 500 Index	14.70	14.56	-0.32	-0.46	-2.73
Russell 2000 Index	23.32	20.86	4.29	-0.07	1.56
MSCI World Index	11.92	14.61	-1.83	-0.07	-1.73
MSCI EAFE Index	8.31	14.02	-3.47	-0.96	-0.38
MSCI Emerging Index	14.98	33.44	2.98	6.91	9.55
FTSE Real Estate Index	21.49	24.97	-2.96	-0.85	5.43

Maclean's Magazine, March 21, 2011

Jason Kirby and Erica Alini

You'll have heard the "invest Canada" story many times by now: our vast resources, supposedly prudent finances, strong housing market and resilient job sector make us a stand-out in the global economy. But there's a weakness to that string of logic. Many of Canada's strengths we like to boast about are underpinned in one way or another by the phenomenal *commodity bull market* of the last decade. This has reshaped the Canadian economy. Is Canada primed to continue to be a world beater?

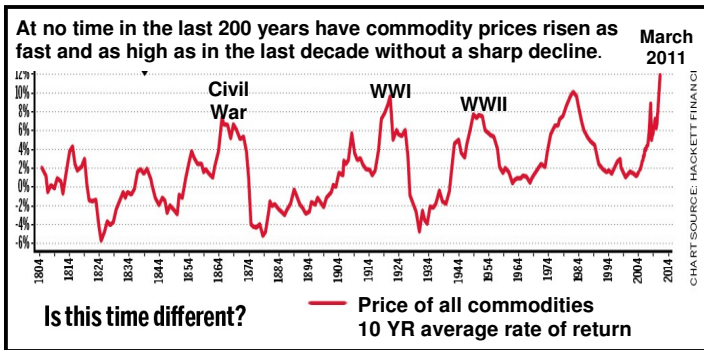
Canada is the toast of international markets. Foreign investors simply cannot get enough of Canada. In January 2011 foreign investors snapped up \$11.8 billion in Canadian stocks. Eleven years into the bull market in commodities, it's easy to forget just how much Canada has riding on strong resource prices. In Jan. 2011, Canada added nearly twice the number of jobs created in the entire U.S. economy, which is ten times larger. These conditions have fed directly into Canada's apparently Teflon housing market. Relative to incomes, house prices in Canada are now nearly as overvalued as they were in the U.S. at their peak. But what was different is that the U.S. did not have the resource sector to fall back on.



The main thing to remember though is that commodities regularly go boom and bust. So is this time going to be any different? How secure should we be in assuming the commodity boom won't bust?

Not very, urges Shawn Hackett, a commodity analyst who has dug into the sector's long history of booms and bust. He analyzed the 10 year average annual rates of return for commodity prices dating back to the early 1800s. At no time have prices risen as fast and as high as they have over the past decade without being followed by a sharp decline.

History: Unless something happens now that defies 200 years of the way commodities have behaved, we may be due for a nasty spill. The chart **"Is this time different?"** measures the rolling 10 year average rate of return. The past ten years has delivered the highest rolling ten year average returns for commodities since 1804.



Historically, as prices rise, consumers and companies cut back while producers ramp up supply. The best example of this was the commodity fertilizer and what happened to the company Potash. On the government fiscal side of things, Canada's debt picture is set to improve over the next few years, but for that to happen the commodity and housing market must stay strong. If resource prices plunge, Canada could be left yet again with structural deficits similar to the 1990s. The Canadian markets have never been more exposed to the resource sector as it is today. The S&P/TSX is *four times* as resource intensive as Canada's overall economy.

Sources: FactSet Research Inc. and Bloomberg, as of December 31, 2010.

% Allocation per Sector	S&P/TSX	S&P 500	MSCI EAFE
Consumer sector	7%	21%	21%
Resources & financials	78%	31%	43%
Health Care	1%	11%	8%
Other	14%	36%	28%

If commodity prices tank, the energy and mining companies that powered returns over the past decade could act like an anchor on Canadian portfolios. But it could be Canada's housing market and those who have extended themselves too much with massive mortgages that stand to lose the most. Professor Shiller, who explored how bubbles form in his book *Irrational Exuberance* says that bubbles always have new-era stories (*this time it is different*). Any time you hear of a new-era story, such as Canada being the envy of the world, it's a good sign you are in bubble territory. If a commodity bust does occur,

one of the key foundations of the housing bubble in Canada would crumble along with it. Can Canada become affected with the Dutch Disease?

Dutch Disease

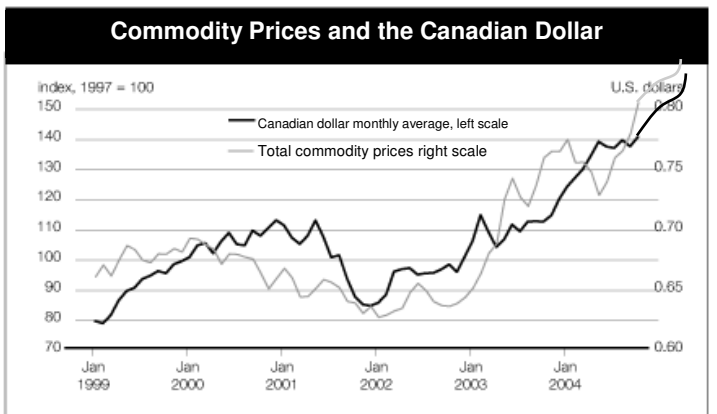
In economics, the **Dutch disease** is a concept that purportedly explains the apparent relationship between the increase in exploitation of natural resources and a decline in the manufacturing sector. The claimed mechanism is that an increase in revenues from natural resources (or inflows of foreign aid) will make a given nation's currency stronger compared to that of other nations (manifest in an exchange rate), resulting in the nation's other exports becoming more expensive for other countries to buy, making the manufacturing sector less competitive.

Glass Half Full

For now, many remain divided on how the Canada boom will play out. Doug Porter of BMO Capital Markets argues that the 20 year bear market in commodities during the 80s and 90s mean that we may only be halfway through the current rebound. Likewise, money manager Mr. Haber says those forecasting a downturn are themselves misreading history. What Canada has are strategic resources that emerging markets need.

Glass Half Empty

On the other hand, money manger Mr. Bradley has been warning Canadians not to buy too heavily into the mantra that Canada is a safe haven. Many people see Canada as a safe play on the emerging markets but that does not mean that Canada is without risk. If anything, with the dollar so strong and the Canadian market near its all-time highs, he says now is the time for Canadian investors to start looking beyond our borders. Perhaps there may be another reason to be anxious. Lately, the term Northern Tiger has been used to describe the Canadian economy. Given to what happened to the other once booming, now devastated *"tiger"* (the Celtic one in Ireland), it is best not to get too used to it.



A good hockey player plays where the puck is.
A great hockey player plays where the puck is going to be.

Wayne Gretzky

