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SPECIAL SERIES ON INVESTING STRATEGIES

TIM FRASER / POSTMEDIA NEWS

Keith Sjogren of Investor Economics says the technology is helping smaller private investment counsel firms make waves in the marketplace.

Private investment counsel lowers investor limits

Opening the door

By Denise Deveau

The price of entry for private investment counsel was once a seven-figure portfolio. Licensed financial specialists who are delegated the task of running a portfolio for such wealthy clients have been around for decades.

But time, markets and technology are levelling the playing field. A number of brokerages and independent private investment counsel professionals have been setting their sights below the $1-million minimal requirement to deliver the same services for portfolios as low as $100,000.

"Private investment counsel is finally becoming democratized," says Francis D'Andrade, president private client for Fit Private Investment Counsel Inc. in Toronto.

Keith Sjogren, senior consultant and managing director, consulting for Investor Economics in Toronto, says private investment counsel firms that are taking clients below $500,000 are still the exception rather than the rule.

"We shouldn't be under the impression there is a flood of individuals doing this. In fact, there has been a lot of consolidation at the top end but that hasn't stopped the formation of new businesses at the smaller end."

The brokerage industry is also seeing increasing volumes of assets being managed on a discretionary basis below the $1-million level.

"They are definitely effective competition to private investment counsel firms," Mr. Sjogren says. "You can effectively get similar service through either of those channels."

A private investment counsel is a specialized chartered financial analyst (CFA) designated individual that has discretionary management of a person's account.

They work with clients on a one-to-one basis to determine investment objectives, write an investment policy statement and construct and manage a diversified portfolio on their behalf.

> Private investment counsel is finally becoming democratized

Their choices are based on specific, agreed upon parameters between the client and the private investment counsel, says Keith Decker, IceCap Asset Management in Halifax.

"We go ahead and do what is needed to manage your portfolio based on your outlook."

Mr. Sjogren says the appeal of personal access to private investment counsel is that it brings you much closer to your money.

"It's not like a mutual fund investor who more than likely never meets or hears the voice of that fund's portfolio manager. Investors want to be able to have a dialogue with those people that have the responsibility of managing their portfolios."

The fact that upper echelon expertise is now accessible to smaller-scale investors can be attributed to two key factors: the rise of exchange-traded funds (ETFs) and technology is making things related to trading faster, more efficient and less costly.

ETFs are publicly traded investment funds that contain a grouping of assets, such as securities, indexes, bonds, money markets or commodities. Since ETFs encompass asset classes rather than individual stocks, and can be traded like shares, they are a relatively economical and flexible way to diversify portfolios.

"With this approach, you could own 15 to 25 ETFs rather than having to buy 150 securities," Mr. D'Andrade says. 'It's a means to get exposure to a wide range of asset categories for people with smaller portfolios."

ETFs have opened a lot of doors for investors, Mr. Decker says.

"A diversified portfolio might have been 60 stocks and 10 to 15 bonds, which is why they needed $1-million or more to set up.

"But with ETFs, it's about allocating investments to the right markets."

"There's nothing to say you couldn't include ETFs as well as individual securities," says Mr. Sjogren. "They're an important new component in the wealth market, there's no question about that. But I think people are getting a little giddy about them. In fact, if you look at the retail market here, there are very few Canadian ETF issues."

Technology has been a huge factor in the democratization process. Not only have systems accelerated trading and reporting capabilities for less cost, it enables organizations to outsource functions that once cost millions of dollars to run in-house.

According to Mr. Sjogren, technology is removing one of the major barriers to entry for smaller private investment counsel firms.

"It's not that hard for anyone to get into the business now, because they can rent back-office functions from a number of providers."

Mr. Decker says his company couldn't exist without the technology available to it today.

"Back-office functions such as portfolio management systems, research and trading can all be outsourced to other companies. Web-based services are available for annual fees."

Postmedia

Let reality guide retirement planning

By Peter Kenter

There's nothing like a set of strict rules to make investors feel their retirement financial plans don't measure up — especially if those rules no longer apply. In an era of modest returns on investment, many experts recommend investors simply maximize those returns while setting realistic goals regarding retirement lifestyles.

"Retirement investment rules tend to be faddish," says Moshe Milevsky, a finance professor at the Schulich School of Business at York University. "They're conversation starters, but you can't be a slave to numbers."

Some investors strive toward an income replacement model of 70% of pre-retirement income in which they withdraw a maximum of 4% of principal for each year of retirement.

"That rule originated in the 1990s when interest rates were higher and the stock market was less volatile," Mr. Milevsky says. "The beginning of the current conversation is that your retirement assets should total 20 times your annual needs. The '20 times' includes your pensions but not the value of a home or cottage, unless you intend to sell them."

In a market where low inflation rates exceed interest rates, Mr. Milevsky recommends a balanced portfolio of stocks, equities, long-term investments, inflation-adjusted assets and liquid cash for emergencies. "That way, you're covered if the markets recover and even if inflation returns to rear its ugly head," he says.

Dave Gillan, a financial consultant with T.E. Wealth, says '20 times annual needs' helps investors understand the mathematics behind retirement planning. However, rather than base retirement plans on optimistic assumptions about robust investment returns, he asks clients what retirement looks like to them.

"I see clients with expectations on both ends of the spectrum," he says. "One client who makes $300,000 per year is planning a retirement on $40,000 a year. Others save $300,000 and describe huge retirement travel plans where I need to rein them back in to what they can afford."

KAZ EHERA / POSTMEDIA NEWS SERVICE

Finance professor Moshe Milevsky recommends a balanced retirement portfolio.

In the wake of the 2008 financial downturn, Mr. Gillan says, about half the clients for whom he created retirement plans the following year chose to postpone retirement and return to work, understanding the market no longer supported their expectations.

"In this market, I don't believe that you can simply decide to be more aggressive and invest 75% of your portfolio in equities to make up for the downturn," he says. "At the same time, timid investment strategies will only see you treading water. I call my parents Mr. and Mrs. GIC and I joke with them that their investment strategies are jeopardizing my inheritance."

Bev Moir, senior wealth advisor with ScotiaMcLeod, says she uses calculations of anywhere from $18 to $22 in savings to support every dollar of annual retirement income.

"However, people are often scared off by the idea that they need a million dollars in savings to achieve their goals," she says. "In many cases, their investment portfolio is smaller, but the rest of that wealth is tied up in their pension plans. If you have a good private pension in addition to government pensions, you may already have that million dollars."

Ms. Moir says a balanced investment portfolio based on assets such as stocks, equities and corporate bonds can achieve returns of four to six per cent per year.

"People aren't taking a lot of risk to get that," she says. "We also believe that this sideways growth of capital markets is probably a phase. Over 100 years, these periods have typically lasted 15 years, and we're in year 12 or 13."

Even before considering investments, however, Ms. Moir recommends that investors first pick low-hanging fruit, by maximizing RRSP and tax-free savings account contributions.

She also notes that some retirees, particularly those who experienced the Great Depression or lived through the Second World War, are reluctant to tap into their healthy portfolios.

"They've gotten into a pattern of saving, not spending, and there are times I have to work to convince them that they're in good shape and that they should enjoy a trip now and again — or at least give that money to their kids."

While retirement portfolios are often tied into the calculations of ever-increasing life expectancies, Mr. Milevsky advises investors not to sweat it.

"The overall life expectancy figure moves up gradually," he says. "You won't suddenly find yourself with an unexpected five years longer to live. Maybe a couple of weeks at most."

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