

Control your own destiny -Or someone else will

“My advisor is working on retirement planning –his” - disgruntled investor



"The compensation system for financial professionals needs to be changed. All fees should, like a dentist's or lawyer's fees, be billed to the clients. This is especially true for financial advisers to private individuals who extract enormous fees for distribution unseen to clients as they are bundled as part of mutual fund management fees" -a respondent to a recent CFA Study
<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2009.n6.1>

For any number of reasons there is an increased interest in Do-it-yourself investing (DIY). Whether its investment dealer shenanigans, greedy commission- driven advisers, high mutual fund fees, the non-bank ABCP meltdown, the Earl Jones fiasco, poor fund performance or advisor fraud, retail investors are looking at alternatives to the commission-driven advisor channel. One solution is to deal with professional fee -only advisor who is motivated to look after your best interests. The problem is that such folks are not easy to find and they tend to migrate to high net worth clients.

Even those who have “advisors” may not be dealing with professionals. *Investment advisor* is a ill-defined title. There are people who are truly well-qualified and educated pros and do a good job for their clients, but there are people who have taken a basic mutual funds course and they put their shingle up and they call themselves a financial advisor. They’re basically salespersons interested in collecting trailer commissions on mutual funds and other expensive packaged products.

Thankfully, taking control of your investments has never been easier, thanks to the proliferation of information on the Internet, the growing assortment of free research tools made available by discount brokers and independents and some excellent choices for low-cost ETF’s , even some that are actively- managed. By looking after your own portfolio you'll save on commissions, manage your taxes better and develop a better understanding of the world of finance as you invest for the future. Here’s the pros and cons:

Cons

- 1. You don't know how to construct a portfolio.** This requires a knowledge of asset classes, diversification and asset allocation principles.
- 2. You are emotional about your investments.** Economists and psychologists who study investing identify all kinds of ways that we are irrational about our money. We are emotional. We fear regretting a bad decision. We hate to lose more than we love to win. All of these behaviours cause us to make bad investment decisions.
- 3. You don't have the time.** Creating and monitoring an investment portfolio requires time and effort.
- 4. You lack discipline.** A planner will tell you exactly how much you must save to meet your goals. He'll probably arrange for the money to be automatically withdrawn from your bank account or paycheque. So you'll be saving and investing whether you want to or not. You'll reach your goals, too. On your own, you might not even get started.
- 5. You lack staying power.** When the going gets rough in the market, do you get going -- out of the market? Studies show that most individual investors achieve worse performance than the mutual funds they invest in (even those with financial advisors apparently).

Pros

- 1. You save a lot of money.** Mutual fund fees average about 2.5 %. These fees take a heavy toll over the long-term –try the fee impact calculator at <http://www.investored.ca/tools-and-calculators/mutual-fund-fee-calculator/default.aspx#ResultsStart> to see just how much. A typical fee for a financial adviser is 1% annually of your assets. You could afford to make a few mistakes and still come out ahead. Trading commissions at a full service broker can cost 1% or \$150 per trade or more. Compare this with \$10 or \$30 trades using a discount broker. The

savings right there, alone, are immense over a lifetime. Note however that with small dollar amounts, even these low fees can eat into returns so until you've got at least \$10,000 to invest, it may be better to invest in a low-cost mutual fund which you can in fact buy through a discount broker without commission (they make their money off the trailers) .

2. You can get the same performance. A portfolio on the efficient frontier (if that's what so-called advisors really provide) probably won't beat a good balanced fund or a balanced portfolio over the long-term

3. Investing can be satisfying and skill-developing. The powerful feeling that taking charge is hard to beat.

4. You can manage and control taxes better. If you manage your own portfolio, you can offset capital gains with capital losses by choosing the timing of transactions. Most mutual fund managers are insensitive to taxes. They care about showing good quarterly performance figures, whatever it takes.

5. More choice. There's more choice of investments if you're signed up with a discount broker than if your financial adviser is a mutual fund registrant, where pretty well all you get are mutual funds.

Nothing says that you can't still use an advisor for part of your portfolio-in fact according to a recent J D Power survey, one third of full-service clients also do some investing on their own. But let's talk about DIY investing. How is the small investor to get started? Where will he get help?

To be a successful, DIY investor you need to be motivated, literate, have numeracy equivalent to a high school education, sufficient time to tend to money matters related to their future and access to the internet. It may be possible to do with less, but risks could increase. You've got to be an informed investor and do your homework and do lots of reading. Read the newspaper, maybe join an investment club, consider taking a basic investing course. Maybe you want to do some mock investing to test your knowledge .Start small-invest your money as you gain self-confidence.

Learn by reading. Newspapers such as the Globe and Mail, National Post and local papers carry articles on investing. There are any number of excellent easy-to read books on investing. *No Hype – The Straight Goods On Investing Your Money* by Gail Bebee is an excellent starter. Magazines such as Canadian MoneySaver and Moneysense are very easy to read, educational and highly regarded. There are also a number of good Investing Newsletters such as the Money Reporter from MPL communications that educate and provide unbiased investment recommendations. Once you understand the fundamentals, your confidence will increase.

Visit DIY websites and blogs. The internet is a great power levelling force. Websites such as www.wheredoesallthemoneygo.com, www.canadianfundwatch.com, <http://independentinvestor.info/>, <http://www.shakesprimer.com/>, www.fundlibrary.com and www.InvestorEd.ca provide a wealth of information. www.retirementaction.com is a respected site for those interested on retirement issues. More sites listed at <http://www.doityourselfinvesting.com/index.cfm?id=11670> These sites are run by people who do not earn commissions; they just want to share their knowledge and experience.

Take a course .Many school boards offer adult education courses on investing .For example the Toronto District School Board offers courses on investment planning, understanding the stock market, income tax preparation and even an Investor Boot camp. They typically run for 6 weeks, 2 hours per evening. Cost? Less than \$80.00

Join or start an Investment Club. http://www.iac.ca/InvestClub_1.asp An investment club is formed by people who would like to pool their money and invest together as a group. The Canadian Investment Club Kit is a sturdy 3-ring binder containing what you need to know about starting and investing to create a profitable and successful investment club. It is written in simple and clear English so that even an absolute beginner can follow it. The Kit also includes important sample documents such as partnership agreements, investment tracking forms and sample minutes. [Take a look at the Table of Contents.](#) The cost of the kit is \$29.95 + \$2.10 tax + \$4.95 pp. = \$37.00. For more details contact@iac.ca. By joining investment clubs, participants are able to pool their money to increase their buying power, share their collective knowledge, and socialize while making their investments. They also avoid interfacing with a commission-based adviser which some might consider an added benefit. Experts in the field can serve as guest speakers for the group, and there may be required reading of books and other publications before each meeting

Use the KISS principle- employ portfolio construction using lazy portfolios

Some of the best minds in finance offer free advice on managing investments and have made available model portfolios so simple in design that they can be run with only a few hours of effort a year. Yet, their passive, indexing approach delivers better returns than three-quarters of professional investment managers, according to academic studies. Call them the Lazy Portfolios (following the label coined by *MarketWatch* columnist Paul Farrell). Set them up by opening an account with an online broker and using mainly exchange traded funds (ETFs) as building blocks. For investors who want to make regular (smallish) contributions or automatically reinvest income/dividends without commissions, index funds (e.g. TD eFunds or RBC series D Funds), are alternatives. After a Lazy Portfolio is set up there is usually an annual rebalancing exercise to restore the original weights of the asset classes. This can be done by adding new money to the investments that have lagged or by shifting funds from the leaders to the laggards. Read *Lazy portfolios for Do t Yourself Investors* http://www.canadianbusiness.com/markets/stocks/article.jsp?content=20060720_150409_4148

The Couch potato portfolio is MoneySense Magazine's portfolio often cited in newspapers for its performance and ease of implementation. Including back-tested results, it has earned about 10% annually over the past three decades. With just three equi-weighted funds, it has the advantage of simplicity - although the ride may be volatile at times. Take a look at all of them and make up your own mind which, if any, fits best for you and your objectives.

Try mock investing. Imagine if you could use an Investing site to experience real investing- before using real money. A *Mock Account* makes it possible. Use Monopoly money to test your skills. RBC Direct Investing (a discount broker) offers such a service

<http://www.rbcdirectinvesting.com/RBC:SpABfKwWZA4AJNAYxRs/practice-accounts.html>

You have to be a RBC client but most firms have similar simulators. You can also try the free Virtual Stock Exchange at <http://vse.marketwatch.com/Game/Homepage.aspx>

Getting started. Do it Yourself Investing is reasonably simple to do:

1. Set up a discount broker account at a reputable dealer and a good rating for their website tools and research and reporting. Find the discount broker's on- line internet page and complete the application process. It takes an hour or so and approximately 30 days to complete all the account transfers. The longest journey starts with the first step.
2. Decide on your original strategy; how much you want to invest and what are your short term/long term investment goals and objectives.
3. Define a starting asset allocation using any number of on-line asset calculators .Ex <http://www.dinkytown.net/java/InvestorProfile.html> Take a short journey to <http://www.canadiancapitalist.com/asset-allocation/> to learn more about asset allocation. Many investing gurus are of the opinion that [asset allocation](#), rather than individual security selection, is the primary determinant of portfolio returns. That's why actively-managed mutual funds can't seem to beat their ETF competitors over the long-term. The latest SPIVA Mid -year 2009 performance report results paint a sad picture for fund managers: The majority of actively-managed mutual funds underperformed their respective Standard & Poor's benchmark over longer time periods. *Only 16.7% and 7.6% of active Canadian Equity funds were able to outperform the S&P/TSX Composite Index over the three and five-year periods.* Source: <http://www.newswire.ca/en/releases/archive/September2009/02/c9379.html?view=print>
4. Start investing by putting small amounts in safe investments such as a low-fee balanced fund and or a balanced assortment of low- cost ETF's
5. Monitor investments, rebalance as necessary and review periodically as your personal situation and objectives change.

Conclusion

If you're an advisor- refugee, there really is another way. With interest rates low and muted forecasts for future returns, fees count as never before In fact, Canada`s mutual fund MER`s are among the highest in the world. DIY investing allows you to take charge of your investments. It's worth spending the time to seize control over your money If you need help along the way

Kenmar Associates
Investor Education and Protection

you can obtain it from a professional fee-only advisor , an accountant or a second opinion service such as www.secondopinions.ca But, you have to take the first step.

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