CFA Montréal

INVESTMENT PRINCIPLES

INFORMATION SHEET FOR INVESTORS

THE ROLE OF AN ADVISOR

6

IMPORTANT NOTICE

The term "financial advisor" is used here in a general and generic way to refer to any duly authorized person who works in the field of financial services, including the following:

- Investment brokers
- Mutual fund brokers
- Scholarship plan dealers
- Exempt market dealers
- Portfolio managers
- Investment fund managers
- Life insurance agents
- Financial planners (F.Pl.)

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THE ROLE OF AN ADVISOR

This document covers one of the most important dimensions of the retirement planning process. Most investors will require a knowledgeable advisor to support this process. Contrary to popular belief, it should be understood that the role of an advisor is not to forecast short-term performance and implement short-term market timing strategies. It is to provide expertise on many different dimensions of the retirement planning process, promote discipline and help the investor deal with the anxieties caused by the process itself and by financial market instabilities.

WHAT WE HAVE DISCUSSED THUS FAR

We have covered many of the mechanical aspects that are vital to the investment process. We have communicated the importance of starting to save early and of building a portfolio that will generate a reasonable rate of return in the long run. Starting late to save and investing too conservatively can be tremendously costly over a period of two or three decades. Although fees cannot be avoided, investors should look for investment solutions that have all-in fees much less than 2%, especially when the situation of the investor calls for fairly standard portfolio planning services. Investors should also ask for transparency of fees. Fees are not always fully disclosed. Furthermore, they should make full use of tax-deffered and tax-exempt opportunities and should manage their portfolio allocation in order to maximize after-tax returns. We also showed that inflation is a huge tax on our standard of living and that investors should account for its impact on the amount of periodic savings required over time to provide a reasonable retirement income. Finally, the volatility of returns drains final wealth, and investors must diversify and rebalance their portfolio as efficiently as possible to reduce this drain. These concepts represent the science of investing, and appropriate planning and management over 30 years can improve your standard of living at retirement by a third or more. However, while most investors can master the science aspect of the process, its implementation is far more problematic. Now let's consider the art of the process and the significant role advisors can play.

WHAT MUST STILL BE DISCUSSED

There is still a lot of work to be done to put all of these concepts into action. For example:

- What level of financial risk can an investor sustain?
- What returns can we expect from different asset classes over the long term?
- What portfolio structure (combination of asset classes) will deliver an appropriate level of diversification and an appropriate expected return for the entire portfolio? How should the assets be allocated between tax-exempt, tax-deffered and taxable accounts in order to maximize the after-tax return of the entire portfolio?
- What is the amount of periodic savings required to achieve the retirement goals? How should the investment and savings plan be adapted over time according to the changing situation of the investor?
- How should investors deal with the decumulation/retirement phase, when they will actually need to withdraw funds from their accounts?

Investors are often ill-equipped to answer these questions. The next six documents will cover these important dimensions of the retirement planning process. We also emphasize that the primary role of an advisor is not to forecast short-term returns nor to time the market. Substantial evidence shows that the greatest majority of investors, including experts, are not able to forecast significant events such as economic recessions or financial crises. Of course, there are always investors and managers who have outperformed in the past, but this can be attributed to chance and a single glimmer of genius as much as to anything else. True investment expertise is about structuring portfolio solutions that are appropriate to the needs, risk tolerance and objectives of the investor.

SUMMARY AND CONCLUSION

The previous five documents illustrated the most important mechanical aspects related to investing. However, what remains to be done is more akin to an art, even though we can still benefit from the rational process that will be explained in Documents #7 to #12. A knowledgeable advisor can and should support the investor during the entire process from accumulation (savings) to decumulation (withdrawals).