Strategy UPDATE
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# Can the Value of Investment Advice and Financial Planning Be Quantified?

Academic finance has been trying to address this question for a long time.

In 2001 a Vanguard study concluded that "Yes, about 3% in any given year net of fees"[1]. The study focused on portfolio construction and asset allocation, but struggled to definitively identify the source of excess returns. The author hinted at less tangible variables such as planning and eliminating cognitive biases in order to draw its conclusions. Fast forward 15 years. According to the latest definitive study, the 2016 Cirano white paper[2], the answer remains yes. In fact, slightly higher, but still about 3% in any given year net of fees.

Here's the really interesting part: Cirano points out that after 15 years the average advised individual has 173% more financial assets or 2.73 times the assets of a comparable non-advised individual. This cannot be achieved by outperforming individual investors by 3% alone. Is it a result of those "less tangible" variables hinted at in the 2001 Vanguard study? Cirano thinks so, and so does your Certified Financial Planner® professional.

It's hard to talk about the value of advice and planning without using industry jargon. I will limit myself to three terms in order to make my point: Alpha, Beta, and Gamma. Alpha simply refers to excess market returns over a benchmark or index. Beta refers to portfolio construction that efficiently captures benchmark or index returns. Gamma is, well, everything else.

The pursuit of Alpha suggests the ability to consistently predict how markets will behave over time. A great many paycheques in our industry seem to depend on believing this is possible. After all, if you are smarter and work harder you should be able to outperform the market. Right? Alas, no. The annual SPIVA scorecard (S&P Indices vs Active Management) suggests

## What's inside



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that only 15% of active managers outperform their benchmark index net of fees on an annual basis[3]. 85% underperform. Philosophically, our firm is very skeptical of this value proposition. We certainly strive to outperform, but only through an evidence-based approach in which we endeavour to protect capital and efficiently capture market premiums. Alpha certainly cannot explain the value of advice.

Beta simply refers to market returns and portfolio construction. How efficiently can we capture market returns? Remember, if we simply capture those returns we will outperform 85% of our peers. The latest Dalbar study (more academic finance) compiled 20 years of data and concludes that equity markets averaged a 9.85% return per year[4]. The average investor only captured a 5.19% return. Why? Take your pick: Buying high, chasing returns, overreacting, overconfidence, lack of diversification, high trading costs, and high fees are a good start. All of these things in the pursuit of Alpha. It isn't difficult to conclude efficiently capturing Beta in a low cost globally balanced portfolio that reflects your risk tolerance can lead to a very satisfying investor experience.

Gamma tries to articulate the value of having a good coach. It refers to the discipline, services, and tools your investment advisor can apply to your unique situation. This is the peace of mind and added value of working with an advisor. It is the reason advised individuals create, compound, and preserve wealth much more successfully than their unadvised brothers

| Services | Benefits | Tools &Tactics |
|---|---|---|
| Retirement Income Planning | Establish Goals for Retirement<br>Save for Retirement<br>Generate Tax-Efficient Income<br>Protect Capital | Financial Plan and Income Plan<br>Income Plan<br>Asset Allocation<br>RRIF's, Dividend Income |
| Tax Planning | Tax Sheltered Savings<br>Tax Efficient Income Strategies<br>Minimize Tax on Investments | TFSA's and RRSP's<br>Dividend Income, Capital Gains<br>Tax Loss Selling |
| Estate Planning | Wealth Transfer to Heirs<br>Gift to Family<br>Gift to Charity<br>Minimize Taxation on Death | Spousal Rollovers, Joint Accounts<br>Beneficiary Designations<br>Charitable Giving Strategies<br>Trusts |
| Investment Advice | Protect Capital<br>Maximize Value of Investments<br>Plan for Expenditures<br>Risk Mnagement | Asset Allocation, Risk Profiles<br>Mutual Funds, ETF's, Equiries, Bonds<br>Asset Allocation |
| Family & Planning | Disability<br>Provide Care for Parents and Self<br>Help Children Financially | Life Insurance, Critical Illness<br>Long Term Care<br>RESP's |
| Business Planning | Fund Buy/Sell Agreements<br>Retirement Savings | Life Insurance<br>RRSP's |

and sisters. Below is a list of some of the products and services our firm can provide. Some may surprise you.

There are items on this list that may never apply to you. Some of these things may be weighing on your mind right now. You may know someone who needs help right now. We are here to help. Each item on this list reflects a healthy conversation about money and your journey. This is Gamma. It leads to making good financial decisions.

Traditional thinking suggests an advisor's value is based on achieving alpha (excess market returns) or beta (portfolio construction). While portfolio construction is important, it cannot explain the dramatic amount of additional assets advised individuals possess over time. My inspiration for writing this is to reinforce the value of working with an advisor that cares about you and the value of financial planning, and to start a conversation. How can we help? Who can we help? Let's have a worry-free 2018!

1 Vanguard Investments, "Vanguard Advisor's Alpha", 2001

2 CIRANO (Centre for Interuniversity Research and Analysis on Organizations), "The Gamma Factor and the Value of Advice", Claude Montmarquette nd Nathalie Viennot-Briol, 2016s-35.

3 SPIVA, "SPIVA® Annual Scorecard", mid-year 2017.

4 Dalbar, "Quantitative Analysis of Investor Behaviour", 2017.

# Segregated Funds: The Forgotten Estate Planning Tool

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Segregated funds are insurance company investment products that are similar to mutual funds. They both invest in diversified portfolios of stocks, bonds and other assets. As segregated funds are administered by insurance companies, they can and do have additional benefits and guarantees.

There are some maturity and death benefit guarantees as well as some creditor protection benefits with segregated funds but we will focus on the estate planning aspects, especially as applied to non-registered, or "cash", accounts. All registered plans (RRSPs, TFSAs, etc) can have named beneficiaries but non-registered accounts usually cannot.

The first benefit of a segregated fund is immediate estate liquidity. If a cash account is registered in one name, upon that owner's death, the account will be frozen until the will can be probated. Not only are there fees payable to the probate court but there can be a significant delay in disbursing the assets to the heirs.

As segregated funds are insurance company products beneficiaries can be named on non-registered accounts. This distinction avoids the need for probate (and the corresponding fees) on these assets so they can be distributed directly to the beneficiaries fairly quickly. This can be very useful when there is a need to access funds to pay debts, funeral arrangements, ongoing bills, etc. It may be attractive to allocate a certain amount of money to a segregated fund for these purposes. It is always important to review the details of your will to ensure that the spirit and intent of the will is not in conflict with the beneficiary designations. Segregated funds are more expensive than traditional investments, so it is important that the unique features of a segregated fund be considered in a cost benefit analysis.

Your Polson Bourbonniere Derby advisor will be prepared to discuss the potential role of segregated funds in your financial plan at an upcoming review meeting.

# Be Worry-Free, Kirk!

It was a bittersweet moment when Kirk walked out the door of the Polson Bourbonniere Derby office in December. While we were sad to say goodbye to our leader, mentor and friend, we were also happy to wish him well on the new chapter in his life called retirement. After 45 years in the financial industry, Kirk was finally hanging up his calculator!

Kirk began his career in 1972 after graduating from York University with a degree in Political Science. Following in his father's footsteps, he joined Crown Life where he successfully navigated a number of roles. With his entrepreneurial spirit, it was not long before he left the corporate world, taking the plunge and setting up shop as an independent financial advisor. It was in this role that Kirk found his sweet spot, building a successful practice by helping people reach their financial potential.

In keeping with the family tradition, Kirk's son Derek also chose to follow in his father's footsteps. The baton has been passed to another Polson, as Derek takes up the reins after more than a decade working as Kirk's partner. Kirk's clients have been left in very capable hands!

In retirement, Kirk, Sue and Scout will be dividing their time between Thornbury and Tucson, making the most of the weather in both locations. They are looking forward to spending lots of time with family, including their 7 grandchildren, and indulging their love of hiking, cycling and travel. As clients of PBD, we look forward to catching up with Kirk and Sue in the spring.

After so many years of providing it to his clients, we know that Kirk will enjoy every minute of his own Worry-Free Retirement Experience™!


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