THE FORTNIGHTER

November 29, 2013 – Issue #29

Al Gair, MBA, CFP, CIM
Vice President &
Associate Portfolio Manager

Bonnie Walmsley
Associate

2500 - 666 Burrard Street,
Vancouver, B.C. V6C 3B1

T: 604.665.5526

E: al.gair@rbc.com
E: bonnie.walmsley@rbc.com

www.gairwealthmanagement.com

There's an old story about a manufacturer who could not get one of his key pieces of machinery working properly. Try as he might, neither he nor his team of engineers could get it running efficiently – he was losing thousands a day in production. One day an elderly man shows up, offering to fix it. He says "my price is $5000" - the owner quickly agrees. The old man walks around the machine for a few minutes, listening and thinking. He then takes a screwdriver out of his pocket and turns a tiny screw ¼ turn. Instantly, the machine starts running perfectly. He turns to the owner and says "that will be $5000, please". The owner is incredulous. "But that took 5 minutes!" he shouts. The old man replies "yes, but you're not paying me for my time, you're paying me for my expertise and results". The owner saw his point and paid up.

The reason for the story is that there is a tremendous "battle" going on in the financial services industry at the moment about Investment Advisor compensation. Some countries (like the UK and Australia) are even taking the extreme step of banning certain types of compensation structures as a way around "the problem".

At the heart of the matter are really two issues – disclosure and value. Do you, as an investor, understand how (and how much) your advisor is compensated? And are you, as an investor, getting "your money's worth" in exchange for that compensation?

I will admit that the investment industry has not done enough over the years to disclose to their clients how they are being charged. This is especially true with respect to mutual funds, where fees are largely imbedded and hidden. Most Canadian investors still don't know that their "no-load fund" might cost them 2.5% per year in fees, with (typically) 1% going to the fund manager, 1% going to the advisor and the rest going to marketing and administration.

Now, is 2.5% per year an appropriate price for owning that mutual fund? Is it good value? Well, it may very well be. The legendary John Boggle, who founded Vanguard Investments and helped popularize the advantages of low-cost mutual and index funds, was frequently dismayed at how poorly many of his customer's portfolios performed. Left to their own devises, investors often chased "hot" sectors, bought high, sold low and wound up underperforming not only the markets, but even "expensive" mutual funds - by a huge margin.

My point here is not to tout the benefits of mutual funds, but to point out that the "value" in any investment product or service is largely dependent on the investor. What are your long-term goals and objectives? What services do you need? How much time, expertise and discipline do you have? Ask questions and educate yourself. For every investor, there is an ideal investment solution – whether it be mutual funds, ETFs, a managed portfolio or just sticking it under the mattress.

RBC Wealth Management
Dominion Securities

There's Wealth in Our Approach.™