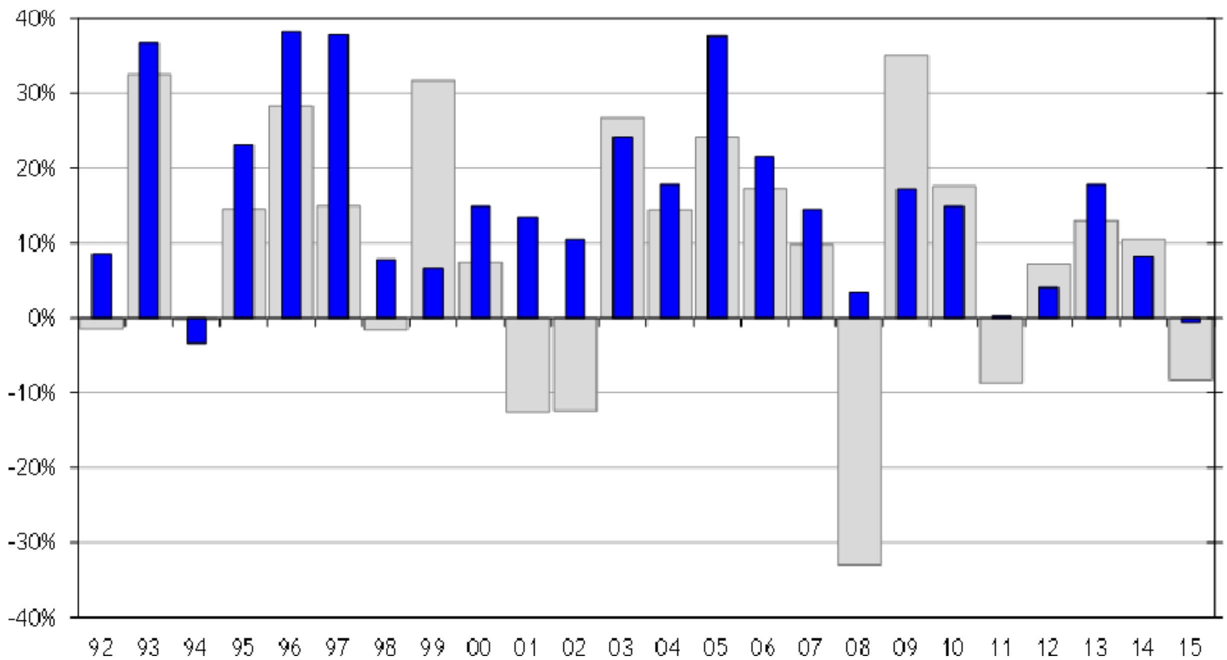
January 16th, 2017

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: 100% stocks
S&P/TSX 60 Closing Value: 15,497
TSX 200 Day Moving Ave: 14,487
% Above/Below 200 Day Moving Ave: **7.0% Above**

Levels for change: 50% stocks - **TSX 15,211** and 100% cash at – **TSX 13,763**

Weekly Quote

"*Life's most persistent and urgent question is, what are you doing for others*?"

Martin Luther King, Jr

The "Ferrari" of Robo-Advisor Portfolios

What are Robo-advisors, what exactly do they provide for service, and at what cost to you? For this comment I am going to pick on **WealthBar** since they are one of the best known robo-advisors in Canada. I could have chosen **WealthSimple** just as easily.

By definition robo-advisors provide "*online automated wealth management services based on mathematical algorithms without the use of human financial planners*."

When it comes to services, WealthBar advertises on its home page, "*No more calling an advisor to book a meeting that is in the middle of your work day. Investing that works for you and your busy schedule. Check your investments wherever, whenever…fees that are up to 60% less than traditional mutual funds…see exactly where your money is going and how much you're paying…open an account completely online in 15 minutes."*

OK…that sounds pretty good. Now let's tear back the introductory sales pitch and see what you really get!

The next line is the key to this story, *"In just a few minutes, WealthBar can recommend an investment portfolio designed to meet your unique needs and to achieve your financial goals. WealthBar can help you invest for goals throughout every stage of your life."*

Now for savvy investors reading my weekly comment (the only type that read my weekly comments ☺), you are going to see through all that rhetoric and recognize that this portfolio asset mix is all going to be determined via a set of questions and questionnaires! In the case of WealthBar…five basic questions. Not that questionnaires are bad, they actually do a pretty good job of measuring how your portfolio should be allocated <u>at the moment you do them</u>…but don't you think your feelings about how your allocations should change if conditions change?

Personalize the thought from the last sentence; is your allocation to the stock market likely to be the same all the time[1]? When stocks are cheap are you not more likely to allocate a greater amount of your net worth to stocks vs. when stocks are expensive? When longer bond interest rates are down to 1.3% do you still want to own 40% bonds? Are there times when things are just so crazy that you really don't want to own anything? Personally, I can answer yes to all of the above!

I'm not saying everybody has to agree asset mix shifting is the correct strategy. But if you can answer yes to 2 or 3 of the above questions I really don't see how robo-advisors add value to your investment philosophy. If you hold a portfolio full of stocks

[1] Research shows that investors tend to change investment account providers when they are feeling a higher than normal level of BULLISHNESS or BEARISHNESS, so they fill out these questionnaires in an unusual mindset and answer the questions differently than they would on most days.

and mutual funds and make very few changes through the year, then maybe a robo-advisor is worth investigating.

But are robo-advisors <u>the best</u> option available to investors for passive portfolios? The best place to look next is at the costs to use a robo-advisor.

Let's face it, the real drivers in the media towards robo-advisors are the cost savings. At the end of the day, if an investor can get the equivalent service at a lower cost, that is a choice worth exploring.

I must admit, I like what the WealthBar suite of services looks like and it is *light years* ahead of most straight mutual fund portfolios. **But it is not nearly as "cheap" as the media makes it sound**. As a matter of fact, on $500,000 invested, my ETF Advisor portfolio, where the investor still has complete control over asset mix and sector exposure, only cost about 0.20% more. ($1000 more per year!) On more than $1 million…my ETF Advisor portfolio is cheaper in its standard format than WealthBar and offers a much higher level of service to the client!

Here are the specific costs for both platforms:

<u>WealthBar++</u>	<u>RBC Dominion ETF Advisor++</u>
Up to $5000 – free + 0.35%**	Not Applicable
$5000- $150,000 – 0.60%* + 0.30%** = 0.90%	Not Applicable
$150k - $500k – 0.40% + 0.35% = 0.75%	$250k - $500k – 1.10% + 0.10% = 1.20%
$500k - $1mln – 0.35% + 0.35% = 0.70%	0.85% + 0.10% = 0.95%
$1mln - $2mln – 0.35% + 0.35% = 0.70%	0.60% + 0.08% = 0.68%

*the first cost shown is the fee that WealthBar or RBC DS charges you directly

**the second cost shown is the MER charged on the ETFs being used by the ETF manager

++You cannot use individual stocks, REITS, preferred shares, or securities in these portfolios. The available investment choices are GICs/Bonds, mutual funds, or ETFs.

Investor options and portfolio construction techniques are changing rapidly. The TEAM model was created in 2012 and was definitely ahead of its time as a robo-advisor type approach. (It still is ahead of its time in that it can switch asset mix so quickly without undo mental stress!)

But, at TEAM's inception in 2012, it was difficult to manage a portfolio using active allocations for a cheap price on a client by client basis. Now, our systems not only allow for such management…they actually market it!

<u>Summary</u>:

Remember the days when you ordered a cup of coffee? Black, cream, or cream and sugar….? Now, the potential number of ways you can get your morning caffeine hit are as numerous as the days in the year!

Clearly that is what has happened to the investment industry too. It is no longer stocks, bonds, cash, or real estate…maybe a commodity or a precious metal choice too.

While writing this editorial I tried to imagine myself as a person who had no idea about all the present day investment choices. You know what I found myself thinking? I need to find a friend who I believe actually understands these investment options and ask their advice. Why? Because there are too many choices and too much information!

I have been working really hard to process the INVESTMENT and COST pros and cons from the many different investment platforms that are available to investors in Canada at present. Below is a list of some of the platforms I am considering:

- Bank accounts/GIC
- Bank mutual funds
- Non-bank mutual fund companies (Investors Group, etc)
- Insurance companies (with segregated mutual investment options too)
- Bank discount brokerage accounts
- Non-bank fixed income structures (Mortgages, Mort Invest Corps (MICs))
- Traditional brokerage accounts (commission based)
- Traditional brokerage accounts (mutual fund based)
- Fee based brokerage accounts (ETFs, mutual funds, fixed income only)
- Fee based brokerage accounts (any and all securities included for purchase)
- Wrap accounts (fee based with outside money managers)
- Hedge funds (funds of hedge funds)
- Active ETF holdings, Structured notes, Real Estate Investment Trusts (REITs)
- Robo-advisors
- Manages Futures
- Offshore Tax Managed future accounts

There are more items I could list…and this list can be combined in some of these options as well…but that is a lot of variety! Is there any way to really know all of these options with complete clarity? No, probably not. And we haven't even started down the path of what the global financial markets might do that impacts these platforms.

I came to two conclusions at the end of this study. Investors need to either:

(1) Pick at least one of the options above and learn how it behaves in different economic and financial conditions. You need to understand when it fits with your investment goals and risk tolerances…and more importantly the times when it no longer meets your investment criteria. And you need to monitor the choice on a regular time schedule to make sure the criteria you have set are still relevant.
(2) Or you need to trust someone to lead you through the jungle of investment choices. You must believe that person has your best interest in mind and you must agree on a regular time schedule to monitor the goals you agree upon so you can measure how that person is doing at achieving your goals.

No matter which way you choose there are going to be challenges. If that were not the case, EVERYBODY would choose the flawless way of dealing with their money.

Robo-advisors are a fascinating new wrinkle in the options available to investors to management money. They represent an excellent choice as a PASSIVE management style over many other traditional investment options. But I strongly believe that for a comparable financial cost RBC Dominion Securities can put together a stronger wealth management grouping AND offer a complete range of personal attention and risk control that does not exist in the present day robo-advisor options.

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