CIBC Wood Gundy

The Kratz Financial Group

INVESTING FOR OUTCOMES

Goals-based and planning-driven investing: The antidote to conventional wisdom and a framework for avoiding common investing mistakes.

By:

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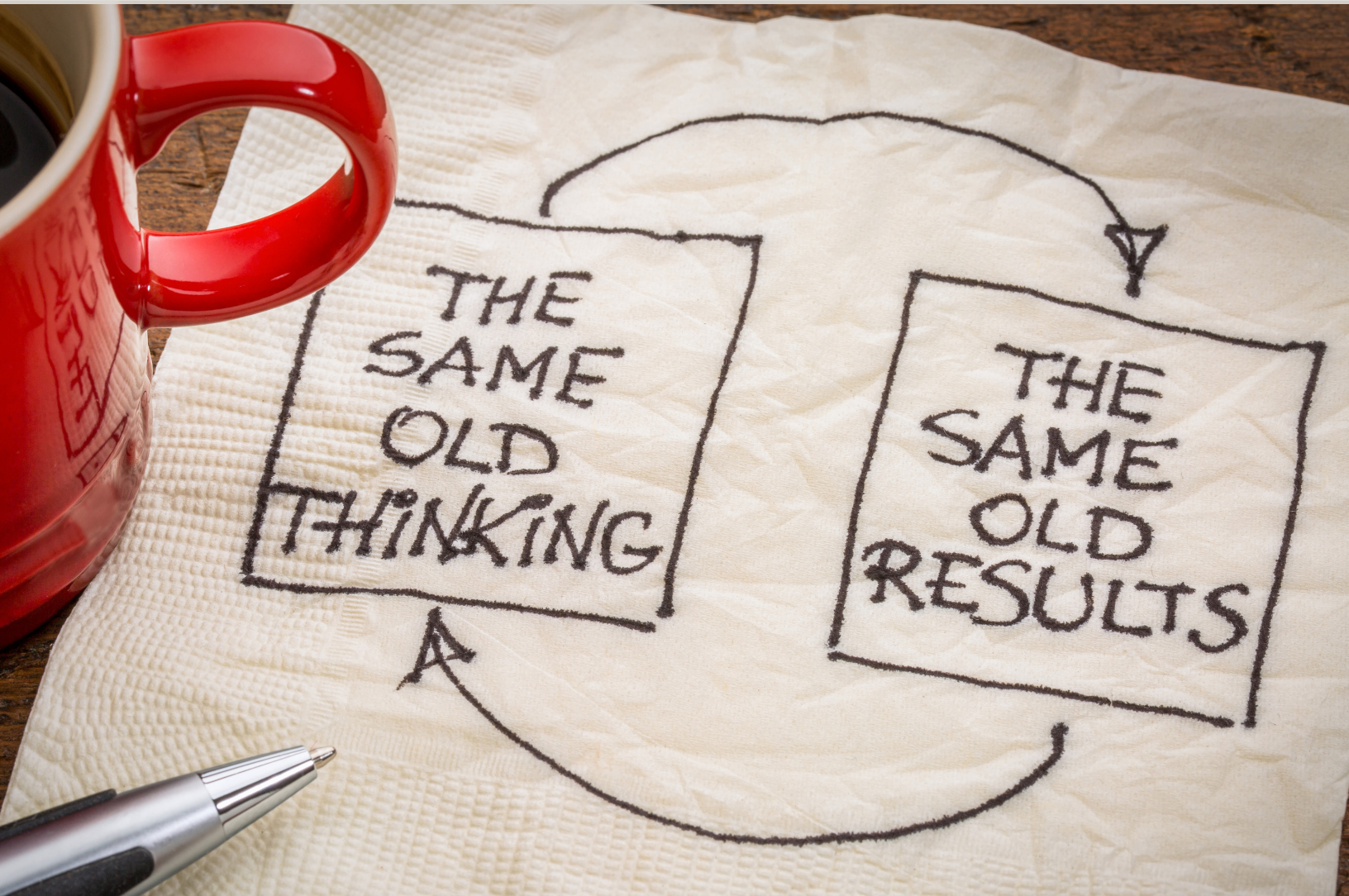

Dear reader,

This is a guide to what I believe creates superior lifetime investment outcomes for real people. The processes outlined in this guide are evidence-based, backed by academic research, and confirmed by my years of experience in helping people achieve important lifelong financial goals.

Here's what you need to know:

1. We focus on factors that we can actually control; creating realistic date-specific, dollar-specific financial goals along with a rational investment plan to help you achieve them.
2. We stick to the basic tenets of successful investing which I believe do not (because they cannot) change. It is my experience that these tenets have and should continue to provide superior outcomes for investors who patiently follow them. Progress will be slow at times and you will need to remember that your money is on the tortoise, not the hare.
3. Successful investing is never easy; my objective is to help you be better than you would be on your own. When your discipline and patience are tested, my team and I will be there to coach you. This type of close collaboration results in a level of mutual trust and respect that will elevate what we can achieve together.

My experience tells me that the principles and processes outlined in this guide are your best chance to build and preserve wealth. Please know that this is not a buffet, where you pick what looks tasty and pass the other dishes by. If you miss one vital link in the process, the chain may break. The years ahead will witness many investment fads and fears and you may be tempted to compare what seems to be working with what has always worked. Remember that now and then, a hare or two may pass us by, but with history as my guide, it is always the tortoise who has the last laugh.

Sincerely,
CIBC Wood Gundy

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The Problem with Investing

A comprehensive global study of high net worth investors revealed that investors paid $600 billion in investment fees in 2014. The study examined the gap between what investors want and what they are actually getting from their investment advisory relationship. It comes as no surprise that the vast majority (73%) of investors surveyed claimed that the reason they invest is to achieve their long-term financial goals (comfortable retirement, financial security, etc.). Alarmingly though, only a small minority (12%) felt as though their investment plan was entirely preparing them to achieve those financial goals[1].

> Step number one should always be setting realistic date-specific, dollar-specific financial goals.

In the past, the focus of the financial industry was often to pay stockbrokers to generate transactions. Many times, a client's long-term financial goals were addressed by simply buying and selling investments for them. Transactions can never be the first step toward achieving security and comfort for our later years. Step number one should always be setting realistic date-specific, dollar-specific financial goals. Only when you have realistic and specific goals can you contemplate forming a sound investment strategy around achieving them.

Today, this business is very different. I am a consultant – I give advice and counsel to my clients. Our relationship is a partnership, and it is based on mutual trust and respect. This role allows me to be on the same side of the table as you are. Education is my responsibility – I provide you with information and guidance on the most effective strategies for you to achieve your long-term financial goals, because making informed decisions leads to better outcomes.

A Portfolio is not a Plan

Decades of research on motivation and performance tell us that we perform better when we set out to achieve goals[2]. The more specific the goals, and the more regular the feedback, the better our performance[3]. The key to driving real-world financial outcomes begins with setting realistic financial goals. I believe that when one has a concrete financial goal – for example, "produce an income of $120,000 per year in today's dollars every year from my age 60 through 102, put grand kids through university, take the whole family on a cruise for my 65th, 75th and 85th birthday" – portfolio decisions become more focused and goals become real.

Immeasurable or non-specific goals – "I want a secure retirement" or "we want to travel" – are a great way to shortchange your retirement and set yourself up for failure. Real-world financial outcomes are the result of a simple three-step process:

1. Set Goal
2. Make Plan
3. Work Plan

> "A goal properly set is halfway reached."
>
> *– Zig Ziglar*

Investors who follow a goals-based financial planning strategy achieve returns that are on average 1.65% per year higher than those who do not. Further, a retiree following a goals-based financial planning strategy can be expected to generate 22.6% more income[4]. Investing well is an important part of the process of accomplishing a financial goal; however, achieving a goal generally requires advice that goes beyond simply setting up and managing a portfolio. In my judgment, a portfolio is never a substitute for planning.

> "Retirement is like a long vacation in Las Vegas. The goal is to enjoy it to the fullest, but not so fully that you run out of money."
>
> *– Jonathan Clement*

> "There are risks and costs to action. But they are far less than the long range costs of inaction."
>
> *– John F. Kennedy*

No airplane can take off without a flight plan and no ship is allowed to set sail without a plotted course, yet many contemplate embarking on a financial journey without any clear "destination" or planned path to get there. I believe that the only rational basis for a portfolio is a plan. A portfolio is the means to the end of a plan, or it's nothing.

The Central Financial Issue of our Time

Financially speaking, retirement has only two possible outcomes and they are mutually exclusive:

1. Your money outlives you
2. You outlive your money

There is only one thing that offers the hope of realizing the first of these two outcomes, and that is a formal date-specific, dollar-specific retirement income plan.

As lifespans continue to lengthen, we need to make sure that we do not outlive our money. You will need to manage your Registered Savings Plans (RSPs) and retirement accounts, and maximize your Canada Pension Plan (CPP), Old Age Security (OAS) and other pension benefits, along with making sure that your sickness and estate planning is in order. This is not simple to do. Your financial world is complex and these problems require planning and coordinated solutions.

The process starts with defining the purpose behind your money. What rewards do you want to reap from the discipline you have demonstrated over the years? We need to go beyond the numbers into the potential, the possible and maybe even the fanciful to examine what it is that you want to do for yourself and the people you care about. What do you want your life to look like in your 60s, 70s, 80s and even 90s and beyond? There are no right answers to these questions – there are only your answers. Taking the time to help you think deeply and gain the necessary insight to create a realistic vision for your future is one of the most valuable and differentiating services we provide. The best person to advocate for the older person you will one day be is the younger person you are today. So once we have a clear vision in place, we can work together to align your resources to work through the maze of decisions that must be made.

> "Simple can be harder than complex: You have to work hard to make things simple. But it is worth it in the end because once you get there you can move mountains."
>
> *– Steve Jobs*

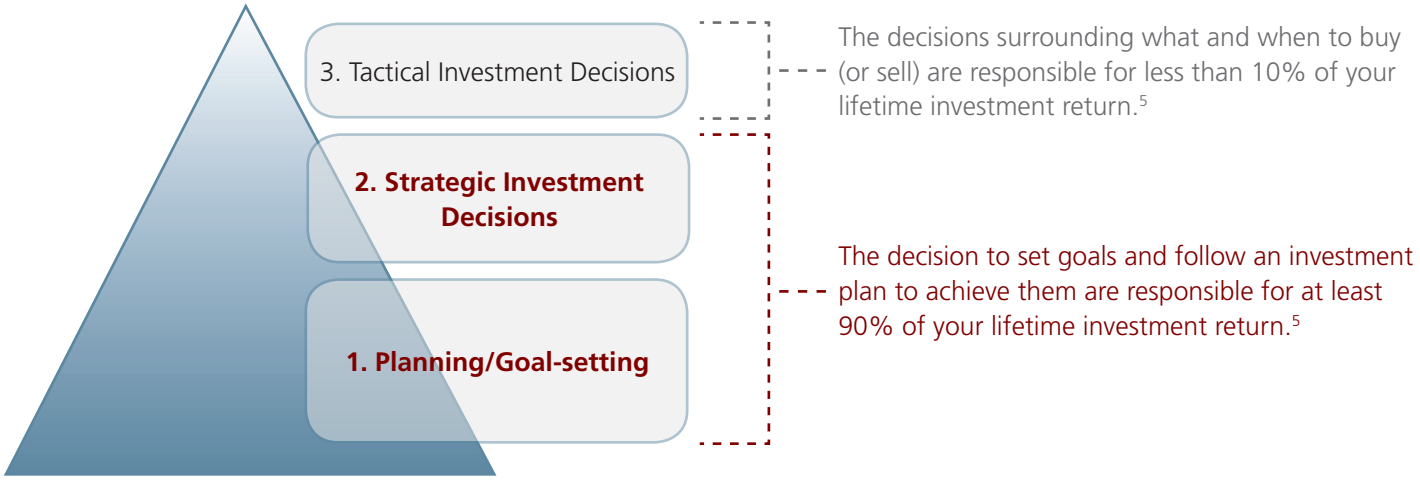
I never forget that behind every lifestyle is a life, so your money must merge with your life. This is why before we invest, we must understand where you want to go and why; this does not come naturally to us, you may need some help to identify your core values, your commitments and your responsibilities, along with your wants, desires and priorities. I will take the time to listen and think deeply about your situation in order to provide the insight needed to create a realistic and relevant roadmap that can start to move you toward your vision of your future.

Invest with Evidence, not Opinion

Pick up a newspaper or watch the business news on television and you'll notice a cacophony of noise about what the market or certain investments might do over the next few hours to year at the very longest. This commentary is primarily about investment selection (what to invest in) and the timing of those selections (when to invest). The commentators' message is clear: selection and timing of your investments is the critical variable.

> **"Buy Bear Stearns!"**
>
> *– Jim Cramer, host of CNBC's "Mad Money", immediately before Bear Stearns collapsed.*

I would argue that the basic tenets of investing are counter-cultural. We live in a culture that places emphasis on investment selection and timing – factors that our common sense tells us can neither be controlled nor predicted with any consistency. You need professional advice, not opinions. You need history, not headlines. This is why at the heart of my approach is decades of peer-reviewed financial research and evidence which backs the time-tested principles and practices we engage to build and preserve your wealth in the long term. We will have to look beyond what may be working right now to stay focused on what has always worked.



1. **Planning/Goal-setting:** Includes converting desires into realistic date-specific, dollar-specific financial goals and then creating a strategy to achieve those goals. Ongoing behavioural coaching is suggested to stay on track with the plan.
2. **Strategic Investment Decisions:** Includes establishing an asset allocation that can be expected to provide the long-term returns required to achieve goals.
3. **Tactical Investment Decisions:** Investment selection and market timing decisions are based on factors that cannot be consistently predicted or controlled and, in the long run, are not critical to your success.

This framework aligns your investments with your goals, leading to a state of well-being when you know your resources are aligned to your sense of self and life. Our clients tell us the result is a sense of freedom – from many of the anxieties and concerns regarding their wealth – allowing them, instead, to focus on living their lives. They report feeling more organized, in control and well positioned to explore what's next.

What Drives Investment Outcomes?

Investment capital can be allocated in two principal ways:

1. Lending your money to companies or governments
2. Becoming a part-owner in companies

With all of the noise and opinion surrounding stock markets, it's easy to forget that some of the wealthiest people in the world got that way from owning great businesses. Generations have prospered from being part-owners in simple businesses that quietly make cookies for 5 cents and sell them for 10 cents. This what investing in stocks is about – identifying great and simple businesses, figuring out what they are worth and buying them for less.

Over the last 115 years, since 1900, through two world wars and other traumatic military conflicts, the Great Depression, more than a dozen recessions and financial panics, oil shocks, epidemics, and political upheaval – a one hundred dollar investment in the great businesses of the world grew to more than two million dollars. This growth is directly attributable to the growth of companies' earnings, cash flows and dividends. Along with Warren Buffett, I fully expect these trends to continue for the balance of our lifetimes and beyond.

The dark and light grey boxes in the "mosaic" below depict lending as buying T-bills or bonds. The blue and red boxes depict ownership in Canadian and U.S. businesses. This "mosaic" of investment returns shows the annual total returns achieved by lending and owning businesses over the past 20 calendar years. The investments are sorted annually with the best-performing asset class for each year at the top and the worst at the bottom – according to their annual return for each year.

When we look at this "mosaic," it is quite natural to try to observe a pattern, but there is no pattern. What performed at the top in any one year did not do well each and every year but in the long-term averages, we see a clear pattern develop. Over this twenty-year period (and every 20-year period since 1935) ownership of stocks produced the best outcomes[6], but we can see that in the short-term, ownership is much harder emotionally due to the extreme highs and lows. What the "mosaic" is telling you is that investment returns in the short-term are unknowable, but, in the long run they are inevitable.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	*Average*
S&P100 36.7%	TSX60 27.9%	S&P100 29.8%	S&P100 33.0%	TSX60 33.4%	Bonds 10.2%	Bonds 8.1%	Bonds 8.7%	S&P100 25.9%	TSX60 13.8%	TSX60 26.3%	TSX60 19.2%	TSX60 11.1%	Bonds 6.4%	TSX60 31.9%	TSX60 13.8%	Bonds 9.7%	S&P100 15.9%	S&P100 30.0%	S&P100 12.6%	Bonds 3.5%	S&P100 11.5%
Balanced 22.5%	S&P100 25.2%	Balanced 15.4%	Balanced 12.5%	S&P100 32.5%	TSX60 8.0%	Cash 4.4%	Cash 2.5%	TSX60 25.5%	Balanced 8.3%	Balanced 9.8%	S&P100 18.2%	S&P100 6.1%	Cash 2.8%	S&P100 21.8%	S&P100 12.3%	Balanced 3.3%	TSX60 8.1%	TSX60 13.3%	TSX60 12.3%	S&P100 2.6%	TSX60 9.8%
Bonds 20.7%	Balanced 18.8%	TSX60 14.8%	Bonds 9.2%	Balanced 15.5%	Cash 5.5%	Balanced -2.8%	Balanced -4.5%	Balanced 15.7%	Bonds 7.1%	Bonds 6.5%	Balanced 11.1%	Balanced 6.1%	Balanced -12.6%	Balanced 15.5%	Balanced 9.5%	S&P100 3.1%	Balanced 7.5%	Balanced 9.8%	Balanced 10.2%	Cash 0.6%	Balanced 8.8%
TSX60 14.5%	Bonds 12.3%	Bonds 9.6%	Cash 4.7%	Cash 4.8%	Balanced 4.0%	S&P100 -13.8%	TSX60 -14.0%	Bonds 6.7%	S&P100 6.3%	Cash 2.6%	Bonds 4.1%	Cash 4.3%	TSX60 -31.2%	Bonds 5.4%	Bonds 6.7%	Cash 0.9%	Bonds 3.6%	Cash 1.0%	Bonds 8.8%	Balanced 0.5%	Bonds 7.4%
Cash 7.3%	Cash 4.8%	Cash 3.1%	TSX60 -0.3%	Bonds -1.1%	S&P100 -12.5%	TSX60 -14.8%	S&P100 -22.4%	Cash 2.9%	Cash 2.3%	S&P100 1.1%	Cash 4.0%	Bonds 3.7%	S&P100 -34.8%	Cash 0.5%	Cash 0.5%	TSX60 -9.1%	Cash 0.9%	Bonds -1.2%	Cash 0.9%	TSX60 -7.8%	Cash 3.1%

Source: CIBC World Markets, compiled by Luke Kratz

Legend:

S&P100 11.5% — The S&P100 is an index of 100 of the biggest (by market capitalization) U.S. blue-chip companies from a variety of industries. The S&P100 is a subset of the S&P500. The S&P500 is widely regarded as the best single gauge of large-cap U.S. equities.

TSX60 9.8% — The TSX60 is an index of 60 of the biggest (by market capitalization) Canadian blue-chip companies from a variety of industries. The TSX60 is a subset of the S&P/TSX Composite index which is widely regarded as the best single gauge of Canadian equities.

Bonds 9.6% — The "Bonds" asset class is represented by the FTSE TMX Canada Universe Bond Index. The index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued domestically in Canada.

Cash 3.1% — The "Cash" asset class is represented by the average annual Government of Canada T-Bill as reported by the Bank of Canada.

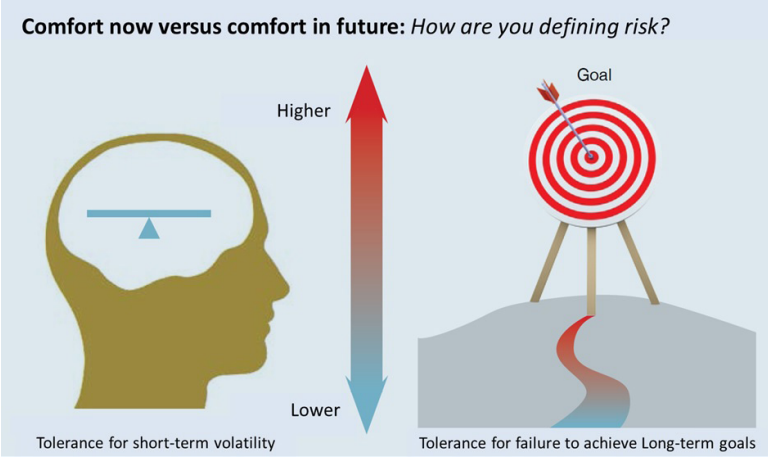
Balanced 8.8% — The Balanced Portfolio is a hypothetical portfolio made up of 48% equities, 48% Bonds and 4% T-bills. The Equity portion is 50% S&P100, 50% TSX60. The bond portion is the 100% in the Canadian Universe Bond index.

> "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves. I can't recall ever once having seen the name of a market timer on Forbes' annual list of the richest people in the world."
>
> *– Peter Lynch*

From the mosaic on the previous page, notice the blue box titled S&P100. The S&P100 is the 100 largest companies in the U.S. There are three important facts around the S&P100: First, this asset class went through two horrific bear markets (declines of 20% on a closing basis). Second, this 20-year period included the so-called "lost decade" in U.S. stocks (the "lost decade" was the period 2000-2010, which is the only period in history where U.S. stocks have declined over a ten-year period). Third, for this 20-year period, owning a diversified group of 100 of the most well-funded, transparent and, by many measures, greatest companies on Earth produced an average return of 11.5% per year. So an interesting question is: If that is what the index did, how did the pros do? Only 27% of active managers over the same 20-year period could do better than the market[7]! What?! All those experts on Wall Street underperformed the market that they were trying to beat? Yes, they did. So if that's how the pros do, maybe the answer is to do it yourself? Not so fast, consider this: the average investor for the last 20 years did much worse coming in at a 5.19% average[8].

Getting on Track

Ever fill out one of those "risk tolerance questionnaires"? Research suggests that few "innovations" of the past few years are as counterproductive to investor success as the so-called "risk tolerance questionnaires"[9]. These questionnaires can cut the discussion of risk off from issues of needs and goals, and from the returns necessary for the achievement of those goals. The "risk tolerance questionnaire" denominates "risk" only in terms of portfolio volatility, whereas for people contemplating for a 20-to-30-year two-person retirement, the erosion of purchasing power is a far greater risk than short-term portfolio volatility.



Your ability to withstand normal market volatility is a very important consideration in portfolio design, but you must consider the possibility that a portfolio that will provide comfort in the short term may actually provide significant discomfort in the future when your goals are not being met. I believe that risk is measured as the probability that you won't meet your financial goal. Investing should have the exclusive objective of minimizing this risk.

> "Life is as simple as these three questions:
> What do I want?,
> Why do I want it?
> And how will I achieve it?"
>
> *– Terry Fox*

This is why I suggest a different approach: Once we determine an appropriate portfolio to achieve your long-term goals, I guide you through an experience I call a "lifeboat drill." Your "lifeboat drill" gives you a real-world view of how the recommended asset allocation behaved during periods of extreme market volatility. Your "lifeboat drill" helps you weigh the achievement of your long-term goals against your desire for protection from short-term portfolio volatility[10]. If your "lifeboat drill" experience suggests that you might not have the capacity to withstand the attendant short-term volatility, we simply start over, resetting your goals with a portfolio that would achieve a lower level of short-term volatility (and correspondingly lower long-term return profile). Only when you are satisfied and comfortable to proceed would we invest your money.

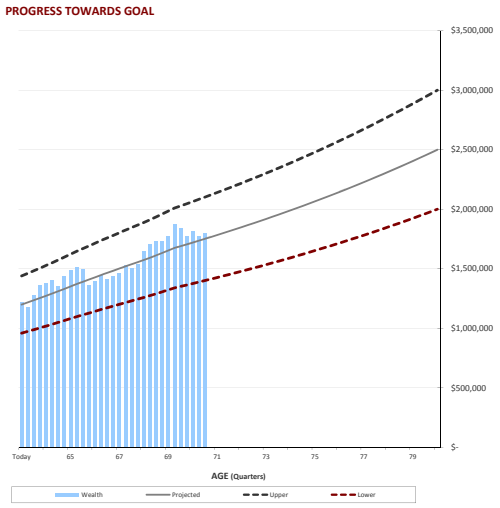
Staying on Track

Judging a portfolio by its performance relative to a benchmark can often be irrelevant to your ultimate financial success. The only benchmark I believe that you should care about is one that indicates whether or not you're on track to accomplish your financial goals.

Studies show that in the long run, your investment success will not be the result of what your investments did, it will be a result of what you do (and resist doing) at critical times[8]. My primary value to my clients is my capacity to act as a behavioural coach.

That is why it is not enough for me to make sure that the train you're on is going to your destination, I want to make sure that you're still on it when it gets there.

Regularly, we will get together to review your progress using goals-based performance reporting. Goals-based reporting compares your current investment balance to the date-specific and dollar-specific goals that your investments are meant to accomplish, so you can tell at a glance if you are on track. Goals-based reporting gives you valuable feedback, which can add needed perspective to help you remain focused on your long-term plans without unwarranted distractions from short-term market movements.



Goals-based reporting: Tracking your investments against the goals that they are meant to achieve.

The Goals-based, Planning-driven Investing Process

This planning process has no end date – it is dynamic. As certain goals are met or your situation changes, new challenges and opportunities will require focus. The goals-based, planning driven approach provides a constant, never-ending improvement process to your financial world.

INVEST ACCORDING TO YOUR GOALS, NOT A MARKET OUTLOOK.

1. We start with the end in mind by converting your hopes and desires into realistic and specific financial goals.
2. We inventory all resources such as pensions, CPP, OAS and financial assets you bring to the task of achieving your goals.
3. We analyze what is required to transform your current reality to your vision for the future and determine and recommend a strategy.
4. You will be educated on the short-term and long-term implications of implementing the strategy.
5. Once the best plan for you has been determined, it should be implemented.
6. The process is dynamic, meaning we will be constantly reviewing and changing when your situation changes.

Taking Things to a Higher Level

Increased wealth brings increased complexity – some Canadians have more to prioritize, more to care for and a greater variety of options to contemplate. My experience is that increased complexity and lack of integration results in inaction and deferral in making the important decisions you need to be making right now. As a response to this need, I have created a premium service offering called **The Total Confidence Program™**. It takes everything to a much higher level and is only available from me.

The Total Confidence Program™ is available only to a limited number of qualifying families that I serve. Members of this program get a deeper level of help in order to coordinate their financial opportunities as we integrate with their other advisors in the disciplines of tax and estate.

The Total Confidence Program™ provides you with:

Freedom from:
Indecision and uncertainty that results from complexity in the financial choices you must make.

Giving you

Freedom to:
Enjoy your time, relationships and health with a feeling of confidence that you are prepared.

"I created **The Total Confidence Program™** to help very successful people simplify their financial lives, so that even though their wealth keeps growing, their financial lives are getting simpler. Wealth is not about how much money you've got; it's about confidence because if you're worried, you're not wealthy."

– Luke Kratz

Portfolios for Today's Investor

I offer a broad range of low-cost and high-quality strategies that meet the needs of today's investor. These strategies are discretionary and managed by myself, and CIBC Wood Gundy administers them with institutional-quality implementation. Every decision I make is in accordance with your written Investment Policy Guideline and is closely monitored by CIBC Wood Gundy's Head Office. These diversified portfolios are structured around sensible principles that are backed by academic studies and data.

While it makes sense to attempt to capture the returns of stocks over the long run, we know that with great regularity stocks can be expected to suffer significant downturns. I believe prudent investing means not only capturing reliable sources of expected return but also managing risks. This belief has reinforced my decision to add a tactical element to asset allocation in order to act during periods of market stress as an opportunist rather than as a victim.

My client portfolios leverage the vast resources of CIBC Wood Gundy and third-party research in order to monitor risk and assess quality so that the companies held are consistent with our margin of safety strategy. CIBC Wood Gundy also ensures that the investments I select are appropriate to the goals of the portfolio and meet the standards of quality. I am proud of the investment results that we have achieved with our diversified portfolios, but it is important to note that tactical portfolio management decisions are a refinement. Most of the long-term return you achieve will come from our goals-based, planning-driven asset allocation and behavioural advice[11].

Portfolio	Short-term Volatility Profile	Equity Exposure Range
Conservative Balanced Portfolio	**Low** / Low to Medium / Medium / Medium to High / High	10% / **20%** / **30%** / **40%** / 50% / 60% / 70% / 80% / 90% / 100%
Moderate Balanced Portfolio	Low / **Low to Medium** / **Medium** / Medium to High / High	10% / 20% / **30%** / **40%** / **50%** / **60%** / **70%** / 80% / 90% / 100%
Balanced Growth Portfolio	Low / Low to Medium / **Medium** / Medium to High / High	10% / 20% / 30% / 40% / **50%** / **60%** / **70%** / **80%** / **90%** / 100%
Equity Income Portfolio	Low / Low to Medium / Medium / **Medium to High** / **High**	10% / 20% / 30% / 40% / 50% / 60% / **70%** / **80%** / **90%** / **100%**

The Value of Advice

The cost of hiring an advisor to steward your long-term investment plan should be secondary to the amount of value that you receive from that advisor.

In setting our cost, we believe that it must be low enough so as to not impinge on your ability to achieve your long-term financial goals, while still allowing us to justify restricting our practice to a limited number of clients. In doing this, we have the ability to provide maximum value to each and every client.

The cost for our services as described in this document are as follows:

Total Managed Assets in our Stewardship	Flat %
Up to $1,000,000	**1.20%**
Greater than $1,000,000 but less than $2,000,000	**1.10%**
Greater than $2,000,000 but less than $4,000,000	**1.00%**
$4,000,000 and over	**0.85%**

NOTE: There are no other costs for transactions or services

How it Works

The cost is all-inclusive for our managed portfolios. Along with portfolio management, service and record-keeping, you receive all of the goals-focused and planning driven investing services as laid out in this paper. You will know about every dime you spend with us upfront. Costs are listed on your statements and reported annually for your information and to ensure that you can report them for potential deductibility.

Since costs are based on the amount of assets under our stewardship, your interests are aligned with ours. When you suffer, we suffer; when you prosper, we prosper.

Fees Over Commissions

In the past, advisors were often compensated by generating commissions. Advisors were not necessarily compensated for encouraging a client to **own** investments, but for getting people to **buy and sell** them. A commission-driven system could potentially result in the advisor seeking advantages in one investment over another to create a reason to trade at a time when the best thing to do might be nothing at all.

I believe that a commission-driven, transaction-oriented relationship is one where advice is dispensed based on the short-term direction of your investments and what they may do next. Short-to-intermediate term movements of the market cannot be predicted with any consistency and are entirely incompatible with a lifelong investing strategy.

Value Over Cost

From an investor's perspective, the lower one's costs to invest, the better. While keeping costs low is important, focusing solely on cost misses the point. In my judgment, investors get value from an advisor when they feel they get more out of the relationship than what it costs. Most advisors have different cost structures and provide different services in exchange for these costs.

> "In my judgement, investors get value from an advisor when they feel they get more out of the relationship than what it costs."
>
> *– Luke Kratz*

As an investor, when you are considering the potential value that an advisor might add, you need to keep forefront in your mind that there are few things that can be counted on to consistently deliver better outcomes, and all of them have more to do with what you do than what *your investments* do.

Stop and consider the time, effort, knowledge and discipline that is required to create, maintain and administer an objective and rational goals-based, planning-driven lifetime investment plan as I have laid out in this paper.

Now consider all that it takes to be successful in the arena of long-term investing – the ongoing research, decision-making, portfolio disciplines, monitoring, administration, record-keeping and reporting.

Now ask yourself this:

Does it seem probable to you that, with all the resources of my firm behind me, I could:

a) Cause your long-term investment return to be at least one percent per year more than you might obtain on our own, and/or

b) Save you at least one percent per year in the cost of mistakes I might be able to help you not make, and/or

c) Save you at least the equivalent of one percent per year in time, energy, worry and/or record-keeping?

Engaging my team and I will incur costs as displayed in previous table. I don't consider this exchange strictly for portfolio management; it is primarily for my assistance in managing your behaviour (setting goals, making a plan, avoiding mistakes). If it helps to clarify this point, consider that I include, at no charge, portfolio selection, design, management, monitoring and reporting, and most if not all service. I am confident that once we get you on track, that my behavioural advice alone – preventing panic when markets fall and euphoria when they soar – could be worth the cost of my services.

Can Your Situation be Improved?

As a Portfolio Manager, I cannot claim that the portfolios I manage will outperform the portfolios managed by other managers. I do claim that as my client, I will counsel you to stay on track with a goals-based and planning-driven lifetime investing strategy. All academic research and real-world studies point to the counter-cultural truth that real-life investor outcomes are driven by goals, planning and behaviour rather than investment selection and market timing. Research suggests that goals-based and planning-driven advice on its own results in real client outcomes that are greater by about 3% per year on average[9]. Think about this: 3% per year to an investor with a million dollars over 20 years is an improvement of over $1.8 million over and above what they could have produced on their own.

My experience tells me that today's 60-year-old is the best person to advocate for the 90-year-old that that 60-year-old will one day be. If that 90-year-old is enjoying dignity and financial independence, it will be because that younger 60-year-old took the time to denominate what dignity and independence will cost in 30 years and created a date-specific, dollar-specific plan and a portfolio to achieve it.

I have the tools to help you paint a realistic picture of your financial future, to tell you the truth about where you stand and what things you need to do to get on track for a comfortable retirement. I can work with you step-by-step as we set goals that are true to your priorities. Once we know where you are going, I can start to figure out the best way to help you get there.

Getting Started:

What is important to you?

Your goals should be a reflection of your core values and beliefs

In the table below, you will find a number of possible uses to which you could put your current or future wealth. For each one, please place an "X" in one of the three boxes to the right, based upon the following definitions:

Heart's Core: A deeply held core value of yours, as to how your money should be used. This is a value you "stand for."

Ought To: Something which you feel obligated to do, based on a commitment you may have made.

Fun To: The "icing on the cake." Doing this would add zest or spice to your life, is not an obligation you feel, and is not a truly deeply-held core value. But it sure would be fun!

Possible Uses for Your Wealth	Heart's Core	Ought To	Fun To	Not applicable to me
Protect my lifestyle and independence in retirement (make sure that I don't run out of money)				
Make sure that someone is cared for when I am gone (spouse, family or friend)				
Provide financial assistance to family (education, house down payment, etc.)				
Make sure I don't become a burden to anyone (create a simple and effective sickness plan and then communicate that plan so everyone knows their role)				
Purchase a retirement or second property				
Provide for a charity, school or institution I care about				
Ensure my financial affairs are coordinated and organized (simplicity and clarity in case someone has to act for me)				
More time for relationships (I only have so much time left, I want to make good use of it)				
Travel and/or health and fitness				
Buy a car or boat I have always wanted to own				

How Confident Are You? – Try the Confidence Scorecard!

To help you clearly understand your current situation, rate your reaction to each pair of phrases. Decide where you lie on a scale from 1 to 10. Add up your total to get your score.

Low <---------- Confidence Level ----------> High

	1	2	3	4	5	6	7	8	9	10	
With longer life spans and rising costs **I am not sure that my money will last** to protect my lifestyle and independence											**I will have enough money** to offset inflation and longevity thus protecting my lifestyle and independence
I may become a burden if I suffer an unexpected event or catastrophic illness such as Alzheimer's											Unexpected events or catastrophic illness **will NOT cause me to become a burden to others**
I feel **my investments are exposing me to risk** rather than protecting me from risk											**My investments are protecting me from risk** rather than exposing me to risk
I don't know if I can afford to provide financial help to others											**I know** how much I can provide to others without jeopardizing my lifestyle and independence
I don't know if court battles and other transfer costs will be required to settle my estate											**I know** my affairs will be settled according to my wishes without court battles or substantial transfer costs
I will pass on wealth but **not** the principles that helped me create it											I will pass on wealth **and** the values that helped me create it: my personal initiative, thrift and hard work
My record-keeping and financial affairs **are not simplified, coordinated and organized**											My record-keeping and financial affairs **are simplified, coordinated and organized**
When I die, **my spouse may lose dignity and independence**											When I die, **my spouse will not lose dignity and independence**
I don't know if my affairs are structured to minimize the taxes that I must pay											**I am sure** that my affairs are structured to minimize my taxes
I don't know if my family would know all the right steps to take if I did not wake up tomorrow											**I am sure** that my family would know exactly what steps to take if I did not wake up tomorrow

Add total from columns

Your Score: _____

What has to happen for you to feel totally confident about your financial future?

Sources

[1] According to The Center for Applied Research (CAR) at State Street, investment professionals pay significantly more attention to activities that turn out to have limited value to the investor. Meanwhile, they underappreciate activities, such as goals-based investing, that have high potential to help investors actually reach their goals (CAR Study 2014 – "How Beliefs and Behaviors Sabotage Success in the Investment Management Industry").

[2] In Mark McCormack's book, What They Don't Teach You in the Harvard Business School, the author reviews a long-term (10-year) study of Harvard MBA students. At graduation in 1979, the students were asked a simple question, "Have you set clear, written goals for your future and made plans to accomplish them?", and found that: 84% had no specific goals at all, 13% had goals but they were not committed to paper, and only 3% had clear, written goals and plans to accomplish them. In 1989, the interviewers again interviewed the graduates of that class with the following results: The 13% of the class who had goals were earning, on average, twice as much as the 84% who had no goals at all. Even more staggering – the 3% who had clear, written goals were earning, on average, ten times as much as the other 97% put together.

[3] Albert Bandura OC. Self-efficacy: The exercise of self-control. New York W.H. Freeman. Mr. Bandura, an officer of the Order of Canada, is considered to be the father of the self-efficacy theory. Self-efficacy is believing in your ability to affect outcomes with your actions. A 2002 survey ranked Bandura as the fourth most-frequently cited psychologist of all time.

[4] Investors who follow a goals-based financial planning strategy achieve returns that are 1.65% per year higher than those who do not. Further, a retiree following a goals-based financial planning strategy can be expected to generate 22.6% more income (Blanchett & Kaplan 2012, Blanchett 2015).

[5] The two longest-standing and leading academic and peer-reviewed studies on asset allocation determined that over the long-term, a portfolio's asset allocation could explain about 90% of the actual return achieved by the portfolio. The studies showed further that "active investment decisions" (security selection and market timing) played "very minor roles" in actual long-term portfolio outcomes. (Brinson, Hood & Beebower 1986, 1991 and Ibbotson, Kaplan 2000). (Brinson, Hood & Beebower 1986, 1991 and Ibbotson, Kaplan 2000). Financial Analysts Journal May/June 1991, Determinants of Portfolio Performance II: An Update by Gary Brinson, Brian Singer and Gilbert Beebower.

[5] Stocks for the Long Run fifth edition: The Definitive Guide to Financial Market Returns & Long-Term Investment Strategies by Jeremy Siegel. Dr. Siegel provides the big picture (i.e., two centuries of stock market history) to allow you to see how stocks truly behave. And by knowing the big picture, I think individual investors gain an advantage over an industry that has difficulty seeing beyond the next quarter and a media that has trouble seeing beyond the next up or down tick. Jeremy J. Siegel is a professor of finance at the Wharton School of the University of Pennsylvania. Professor Siegel received his Ph.D. from M.I.T. and joined the Wharton faculty in 1976.

[5] Triumph of the Optimists: 101 Years of Global Investment Returns p.154. This wonderful book discusses the experience of sixteen national stock markets over 101 years – a period that included two devastating world wars, the Wall Street Crash and Great Depression, episodes of high inflation and much political and economic turmoil. The researchers point out how most things turned out better than expected and the annual realistic return of equities was 9%.

[6] The Investments Illustrated "2015 the Big Picture" is an annually updated study of markets affecting Canadians. "2015 the Big Picture" features facts and information for the period 1935-2015. A section of the study is titled "Risk and Return" and features data in monthly rolling periods. The "Big Picture" analysis shows us that there were

721 different 20-year periods in the 80-year period examined. The average performance of equities over the 721 different periods was 11.9% and 10.4% (for US and Canadian equities respectively). The average return for bonds over the same rolling periods was 6.9%.

[7] Christopher B. Philips, CFA; Francis M. Kinniry Jr., CFA; David J. Walker, CFA. The buck stops here: Vanguard research the active-passive debate, 2015.

[8] According to Dalbar research's 2015 Quantitative Analysis of Investor Behavior (QAIB), the effect of investor decisions to buy and sell into and out of investments in short and long-term time frames demonstrates that the average investor earns less than what their investment would have if they resisted the urge to time the market. Investors can be consistently counted on to react to recent market performance (after the market has produced outsized returns, money flows in and after the market has already declined, money flows out). Dalbar's analysis has been performed annually since 1994 and demonstrates how the average investor consistently underperforms the average equity fund by minimum of 4.23% annually over the past twenty years.

[9] The CFA Research Foundation, Joachim Klement CFA, Investor Risk Profiling: An Overview. This study looked at the body of evidence surrounding risk tolerance questionnaires that form the foundation of financial advice to investors all around the globe. The study shows that the current practice of risk profiling via generic questionnaires provides a weak foundation for investor success. The current standard process of risk profiling through questionnaires is found to be highly unreliable and typically explains less than 15% of the variation in "risky". The researchers claim that the design of these questionnaires, which focus on hypothetical scenarios to elicit the investor's behavior, are not empirically validated.

[10] Risk is a multidimensional concept that should be contextualized in terms of what you are trying to accomplish and whether you are comfortable to increase the potential of not accomplishing long-term goals in order to achieve greater emotional comfort during temporary periods of market stress (Bodde and Taqqu 2012).

[11] Donald G. Bennyhoff, CFA Francis M. Kinniry Jr., CFA. Advisor's Alpha: a report by U.S. asset manager Vanguard found that the greatest obstacle to clients' long-term investment success is likely themselves. Vanguard performed a 14-year study in an attempt to quantify the value of an advisor's relationship-oriented services such as providing cogent wealth management via financial planning with discipline, and guidance as compared to an advisor trying to outperform the market. Vanguard concluded that on average the relationship-oriented services can be expected to add an average of "about 3%" in net returns for clients.

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