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Feathering a nest egg

Analysts warn placing all your mutual funds in the same sector is like putting all your eggs in one basket

February 07, 2008

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SPECIAL TO THE STAR

The more the merrier may be a great catch phrase for keggers and fundraisers but when it comes to how many mutual funds any retirement savings plan should hold Bauhaus trumps beer busts: less is definitely more, say the experts.

Too many funds can turn diversification into "diworsification," says David Phipps, a financial adviser with Assante Capital Management Ltd., in Ottawa.

"One of the goals of any portfolio should be having a range of investments to mitigate the effects of downswings in any particular sector," he says. "That is why you diversify."

"Diworsification" is indeed a common problem, says Tracy Broeze, financial adviser with Cumming & Cumming Wealth Management in Oakville.

"It is usually the result of an emotional response and short-term thinking," she says. "Friends and acquaintances say how well they have done in XYZ fund and people think they should be there as well. They likely already have a fund in exactly the same field, chosen because of the long-term contribution it makes to the overall investment plan."

They have forgotten one of the fundamentals of RRSPs. They are long-term investments, not short-term market plays.

So, how many is too many? That depends on what the investor wants to achieve and his or her tolerance for risk.

Unfortunately, people often respond to emotional urges rather than make decisions based on hard data, points out Kim Buitenhuis, vice-president of marketing communications at RBC Asset Management.

"Having too many mutual funds in exactly the same sector, say Canadian equities, is fairly common," she says. "What has usually happened is that they heard from a third party how well they have done in a fund. They then come in and tell their adviser 'Get me into that'."

By that time, however, the fund or equity may have made most of its gains.

Phipps offers another argument against duplication in an RRSP. Too many funds in the same sector means the investor is essentially playing the market index and not taking advantage of the skills and experience of the mutual fund managers.

"Why bother paying managers at all," he says.

Granted, a case can be made for having more than one fund in the same sector. That decision comes down to management style of the different fund managers, says Teresa Black Hughes, chair of the Financial Advisors Association of Canada and a senior financial planner with Solguard Financial/Peak Securities in Vancouver.

"That can provide diversification within a sector," she says. "The trick is not to go overboard. If you have a portfolio of \$100,000 and five Canadian equity funds, then you have way too many."

Broeze says look on mutual funds as well-defined tools to achieve specific goals, the goals set out in a well-developed overall financial plan. Each has to achieve a specific intent.

If the fund fails to pass that acid test then do not buy it or if you already have it sell in favour of a tool that drives the wealth creation process.

Phipps offers an analogy. Too many funds in the same sector is like putting all your eggs in one basket.