FINANCIAL POST

Saturday, February 14, 2009

What the pros know

Caroline Van Hasselt, Financial Post
Published: Saturday, February 14, 2009


Tyler Anderson/National Post

Let's face it, bear markets happen. How investors navigate through the corrections is what determines the success of their financial plans.

Bearing in mind there's no cookie-cutter solution to meet everyone's needs, the Financial Post asked three financial experts, all certified financial planners, how they're weathering this financial hurricane, their investment approach and the strategies they're adopting to safeguard and grow their retirement savings.

Financial planners tend to differ from Bay Street brokers in how they invest their money, taking into account factors such as taxation, short-and long-term goals and such unexpected life events as accidents or illness.

They consider investment time horizons -- how long before you need to access your funds --and personal risk tolerance. Our pros agree it's important for people to earmark funds for short-term goals or projects such as buying a new home or taking a vacation.

In spite of the bear's growling pessimism, our pros remain optimistic largely because of their financial plans. That doesn't mean they haven't thought of, worried about and sweated over their own investments. But their approaches may offer insight, even solace, when tackling your own plan:

DAVID PHIPPS, 43, CFP, ASSANTE WEALTH MANAGEMENT (CANADA) LTD., OTTAWA

Risk tolerance "The Phipps, as a clan, are fairly low-risk people. I personally do not like a lot of risk in my account. My portfolio is more conservative than some of my clients who are the same age." Target return 5%

2008 return "I'm down about 20%." Portfolio breakdown 60% equity; 40% fixed income

RRSP contribution The max

TFSA Yes

Basic Strategy Mr. Phipps adheres to the fundamentals of investing by keeping his portfolio broadly diversified and his asset mix of stocks and bonds appropriate for his investing time horizon and his stomach for short-term volatility.

"I don't believe in owning individual securities. I use managed portfolio solutions, which are broadly diversified." Firms, from banks to fund companies, offer managed portfolio solutions, enabling investors to diversify by asset class, geography and sector.

Inside his managed portfolio solutions, Mr. Phipps holds mutual funds from fund families such as CI Funds, SEI and Franklin Templeton. "I really rely upon the research of these firms to assist in developing the breakdown of the asset class." That means he has exposure through the funds to equity markets in Canada, the United States and abroad.

"A lot of people think mutual funds are for poor people. That [they are] not sophisticated enough. I say, 'You know what, step back and look at the Harvard Endowment Fund or Queen's University. They hire a consultant who assists them on their target allocation.' It's a common thing that when people get past the $1-million mark they think they need individual stocks. But there's no pension plan that gives it to just one money manager ... I subcontract the asset management to asset managers."

His portfolio automatically rebalances back to its target allocation of 60-40, which means his portfolio never drifts beyond 2.5% over or under the target allocation. "It's trimming off the profits and shifting money into asset classes that aren't doing so well. People ask, 'What are you doing now?' Well, these programs are taking money out of fixed income and buying into [equities] low. Nobody wants to buy stocks now, but we all know the time to buy is when things are low."

He also gives much consideration to taxation in his approach. "We try to overweight the non-registered portfolio in investments that grow through tax-preferred growth -- that means capital gains and dividends. Then we try to put the investments that grow through interest in the RRSP. That's a bit of a tweak that should be done and can impact RRSP investments specifically. It's a straightforward planning idea that I use for myself and my clients, but is commonly missed."

Regrets "In light of the severe drop in the equity markets, I have asked myself often if I should have done anything different, and I can honestly say the answer is no."

Advice "Don't worry about where you were. You should always look at the portfolio like this: If this were cash, how would I invest it today?"

LAURIE STEPHENSON, 47, CFP, STEPHENSON DAIGLE FINANCIAL, HALIFAX

Risk tolerance Aggressive

Target return 4%. "I'm conservative in my planning but aggressive with my portfolio. I always plan for 'what if I live to 100' ... so, I use a 7% rate of return and 3% inflation for my own plan. I feel comfortable with that." 2008 return Her RRSP "pretty much mirrored" the S&P/TSX's 35% decline. "It was a little better than the TSX. It was heavily in financials. I did have some extra [stocks] -- Great-West Life, Manulife and Power Corp. -- that I felt confident in and I continue to feel confident in. I know that financial services led us into this decline, but I believe it will lead us out too."

Portfolio breakdown 90% mutual funds; 10% equities. Her portfolio is geographically more heavily weighted to Canada.

RRSP contribution "I just maxed my contribution for 2009 ... I'm going 100% equities because I think a lot of value funds are able to buy things that they weren't able to buy before."

TFSA "Absolutely"

Basic strategy A buy-and-hold investor, Ms. Stephenson admits that, as for many people, it's been a sobering time. "I don't want to think about my portfolio as much as I've been thinking about it the last six months. My strategy is 'Get in. Stay in.' I want to know that I'm in the right mix and can just leave it in the right mix. I don't want to think about timing the market."

She manages her own portfolio with the input of her business partner, Trevor Daigle, who oversees most of the investment aspect of their practice. She mostly holds an array of mutual funds that cover growth, dividend and value funds. The five funds in which she puts most of her money are Maxxum Canadian Equity Growth, London Capital Canadian Diversified Equity, Setanta Global Dividend, Templeton International Equity and IA Clarington Canadian Conservative Equity.

Right now, she's been buying "a fair amount of Canadian--financials and natural resources -- because that has been down so significantly."

Last August, she and Mr. Daigle moved their clients -- those using leverage to build their portfolios -- from equities into safer investments, such as conservative folio funds or money-market funds. "I'm a strong believer in tax-deductible debt," she says, adding the following caveat: "People should not be leveraging unless they are aggressive."

Even though their call last August proved fortuitous, Ms. Stephenson doesn't believe in timing the market. "It's quite contrary to the way we've done business in the past. If you're an aggressive investor and if you're in a well-diversified portfolio, you can hold the course and be OK. What's causing my hair to go grey now is when to get back into the market." Regrets "In hindsight, no."

Advice "Stay the course. ... I don't believe this is the end of the world. I believe the market will come back up. I'm very optimistic. It's been painful, but that's how the markets work."

PETER MERRICK, 39, CFP, MERRICKWEALTH.COM, TORONTO, AND FINANCIAL AUTHOR

Risk tolerance Conservative

Target return 7.5%, the rate the government sets for defined pension plans. His end goal is to retire with more than $4-million. 2008 return 15% loss.

Portfolio breakdown 55% equities; 45% fixed income.

RRSP contribution Yes.

TFSA Not yet. "If I'm in a high tax bracket and expect to be in a lower tax bracket when I retire, then the RRSP makes perfect sense. But, if I'm in a low tax bracket and I aspire to be in a high tax bracket, the TFSA makes more sense."

Basic strategy "I look at my end goal and then I look at what I have today. Then, I ask, what could get me to that goal faster? Is it RRSPs, the TFSA, the RESP, or maybe it's real estate? What's going to get me there? It's not just a financial planning process; it's a life planning process," he says.

"I don't like managing money because these are things I can't control. But I was a portfolio manager and I used to have a large book of business [assets under management]. I'm a very strong advocate of financial planning. That's the key."

Mr. Merrick uses four managed portfolio solutions: one for Canadian equities, one for international equities, one for short-term fixed income and one for long-term fixed income. He doesn't hold individual stocks. "I like to take the thinking out of my investing. I know my strengths and they are creating strategies to max tax deferral or minimize tax."

An advocate of systematic investing, Mr. Merrick invests the same amount of money every month, regardless of whether the market is up or down. That means he automatically buys more shares when prices are down and fewer shares when prices are up, reducing his cost basis. "It smooths the ride out."

For the past few years, Mr. Merrick didn't contribute to his RRSP in order to invest in his business. To catch up, he made a lump-sum contribution last year, but given the market's volatility, he kept the majority of it in cash and the rest in bonds, which put him in a position to shift into equity-based mutual funds as stocks worldwide fell. Still 60% in cash, he's gradually folding the money into his target allocation mix.

Regrets "No, I had a good year professionally."

Advice Mr. Merrick boils it down to four levers that he calls STEW: "S" stands for "Save More," "T" is for "Take Less," "E" is "Earn More," and "W" represents "Wait," as in wait longer to retire or to make that big-ticket purchase.

"I am a firm believer that more than ever it is important to have a financial plan that takes stock of where one is and link that with your financial goals and decide to take a course of action. Then, stick to it.

"I do not have a crystal ball, but if we are to learn anything from history, it is that those who keep a cool head during a time of change like we are experiencing now, these will be people who achieve more when times turn around. Years ago, I heard a great saying about the markets: The downs are temporary and the ups are permanent. It's true."