



**What is the Role of a Financial Planner?**

- ⊗ A financial advisor is not a chartered accountant
- ⊗ A financial advisor is not a lawyer
- ⊗ A financial advisor is not an economist nor a portfolio manager. A financial planner does not believe that he or anyone else can consistently anticipate daily, monthly or yearly direction of the market. A financial planner holds no view as to when market tops may occur or when market bottoms may appear.
- ✓ A financial planner does create portfolios by taking into account the risk and return desired by investors. Success is based preponderantly on two variables: Investor behaviour and proper asset allocation.

Controlling investor’s behaviour is clearly the more important of the two. Creating a proper allocation while difficult, is a much easier task than controlling investor behaviour. Yet investors treat investing like gambling.

**Is Gambling Entertainment?** Author Brad Hill said, "Global financial markets represent the greatest spectator sport humanity has ever devised. It has global planetary reach with volumes of statistics, star players (managers), and best of all anyone can play. The newscasters of CNBC are the play-by-play announcers, calling the game, citing the winners and the losers. The internet has revolutionized retail investing. However, online trading has attracted many who enjoy betting and view online trading as a new form of entertainment."

Chris Anderson, executive director of the Illinois Council on *Problem and Compulsive Gambling*, has said that compulsive gambling isn't really about making money, it's about "the action," and the lure of the big win. We suspect that the chemical changes that occur in the brains of compulsive gamblers and compulsive day traders are similar, since they're both riding on the same emotional roller coaster of wins and losses.

**Bank (Broker) Advisors vs Independent Advisors:**

You would think that the differences would be clear but to many they are not. *Independent* financial advisers should be *self-employed* advisers providing impartial advice based on client needs. Bank (broker) advisers may need to address other various interested parties. The issue then becomes “who is the most important?”

- The Client?
- The Bank Branch?
- The Shareholder?

Financial Advisers need to put client interests first, ahead of the bank branch and any shareholders.

According to the Investment Advisers Act of 1940 (USA). (The Act), it defines a financial adviser as, “Any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation issues analyses or reports concerning securities.” The Act also precludes brokers from being considered financial advisers.

What is the broker’s role? The Act provides this definition: “A broker is any person engaged in the business of effecting transactions in securities for the account of others.”

Today, brokers make the trades happen but many are also “dealers,” meaning they execute trades and also offer financial advice and products to their customers.

Author and newsletter writer Jeremy Grantham writes: “I think many in the financial industry have lost their way and they are getting out of control. The industry has been affected with moral decay.” Graham goes on to say that “We have allowed this deterioration of ethical conduct by investors not moving their business to the “*least unethical banking firm. I think we should all be ashamed that the majority have not yet done this ...and shame on us.*”

Finally, he holds his harshest criticism for propriety trading desks at the big banks: “*It should be illegal. It’s clearly unethical and clearly a conflict if interest.*”

Independent Financial Advisors	Bank Owned Advisors (or Other Big Institutions)
■ No shareholders	■ Shareholders to report to
■ No annual salary; majority are self-employed	■ Annual salary with annual increases based on sales
■ No bonus	■ Bonus structure
■ No quotas to fill	■ Quotas to fill
■ No pension or stock options	■ Pension plan & stock options
■ Gets a fee –normally 1% of assets (or could be less)	■ Gets salary, bonus, pension, stock options, perks, etc.
■ Not required to recommend any company or product	■ Most recommend the bank’s products or services first

## AFTER A PLAN HAS BEEN REJECTED...

From time to time, a financial advisor will go to see a new prospect, present their investment strategy that they had prepared for the meeting...but have the plan rejected.

The advisor's answers just did not convince the investor that the strategy presented was the best option.

- At this point what should the financial advisor do?

If the financial advisor really cares about his profession, they should ask the prospect one final question before departing: *“Very well. It looks like I’ve failed to make you see the value of taking the strategy I’ve recommended and I accept full responsibility for that. One favor, if I may ask is: Please tell me where did I go wrong? Since I still truly believe that the strategy is the best one for my investors, I need to know for my own future reference where I went wrong. For you see Mr. Investor, I need to know if there is a better strategy than the one being presented today.”*

Mr. Benjamin Franklin, when confronted with two difficult choices, would make a "T" and put the pros and cons on each side. The side with the most pros would win and that would be his chosen course of action. Try it below.

Recommended Course of Action	The "Other" Course of Action
<u>1. Investment Fees</u> Fees below industry average.	<u>1. Annual Fees</u>
<u>2. Trading Fees</u> Trading fees are 50% less than industry average	<u>2. Trading Fees</u>
<u>3. Income Taxes</u> Taxes on distribution are 50% less than industry average	<u>3. Income Taxes</u>
<u>2. Recommendations</u> This strategy recommended by legendary giants (Mr. Buffet, Mr. Lynch and by Mr. Graham)	<u>2. Recommendations</u>
<u>3. Historical data</u> Supporting financial data goes as back as 1927	<u>3. Historical Data</u>
<u>4. Chances of success</u> Evidence shows that this strategy has a 91% of success	<u>4. Chances of Success</u>
<u>5. Transparency</u> Does not rely on any manger who may retire, leave, or who may change strategies at any time	<u>5. Performance Transparency</u>
<u>6. University studies</u> Full report on this type of strategy available at University of Toronto's Rotman's School of Business	<u>6. University Studies</u>

## Further Market Wisdom from Bernard Baruch

Learn from a past investor, Mr. Bernard Baruch. Bernard Mannes Baruch (1870 - 1965) became a broker and then a partner in A. A. Housman and Company. He amassed a fortune before the age of thirty. By 1910, he had become one of Wall Street's best known financiers. After his success in business, he devoted his time toward advising Presidents Woodrow Wilson and Franklin Roosevelt.

- Baruch started out as most traders do - losing lots of money because he lacked the knowledge, experience and discipline. He wrote “You have to lose money in order to better yourself in investing.”
- Overtrading and holding too many positions in his early years caused Baruch to go broke many times.
- Through experience, Baruch learned the golden rule - never take stock tips from others.
- What drives stock prices are human reactions.
- The key to successful investing is to remove decisions based on emotions. Without controlling emotions, there is very little chance for success.
- No one could sell at the top and buy at the bottom. It can't be done except by liars and Baruch stated that the main purpose of the stock market is to make fools of as many people as possible.

Look at the results re “Economic Forecasts, The Wall St Journal Survey 1999 - 2007” on long term interest rate direction: 33% were correct, 67% were incorrect.

Date of Survey	Forecasted Change	Actual Change	<input checked="" type="checkbox"/> 6 correct
Jul 1999	-0.15%	0.50%	<input type="checkbox"/>
Jan 2000	-0.10	-0.58	<input checked="" type="checkbox"/>
July 2000	0.11	-0.40	<input type="checkbox"/>
Jan 2001	-0.15	0.30	<input type="checkbox"/>
Jul 2001	-0.10	-0.38	<input checked="" type="checkbox"/>
Jan 2002	0.04	-0.22	<input type="checkbox"/>
Jul 2002	0.40	-0.98	<input type="checkbox"/>
Jan 2003	0.60	-0.31	<input type="checkbox"/>
Jul 2003	0.34	0.74	<input checked="" type="checkbox"/>
Jan 2004	0.50	0.34	<input checked="" type="checkbox"/>
Jul 2004	0.55	-0.37	<input type="checkbox"/>
Jan 2005	0.57	-0.30	<input type="checkbox"/>
July 2005	0.68	0.47	<input checked="" type="checkbox"/>
Jan 2006	0.51	0.76	<input checked="" type="checkbox"/>
July 2006	0.09	-0.44	<input type="checkbox"/>
Jan 2007	-0.04	0.32	<input type="checkbox"/>
July 2007	0.13	-1.00	<input type="checkbox"/>
Jan 2008	0.08	No data	<input type="checkbox"/>

## INVESTMENT REVIEW

A regular financial review can help bring focus to your financial picture. You should spend a few hours each year reviewing your situation. This review could give you more peace of mind plus possibly greater future wealth if your investments are not “aligned properly.”

What questions should you be discussing with an advisor in a review?

Since the last review:

- Has your income changed (up or down)?
- Has your savings account changed (up or down)?
- Has your debt level changed (up or down)?
- Has your address changed ?
- Has your employment changed?
- Has your marital status changed (married, divorced, etc) ?

Since the last review:

- Has your monthly fixed expenses changed (up or down)?

Since the last review:

- Have you had any more children?
- Do you any other dependents to take care of (eg. aging parents)?

Since the last review:

- Have family educational costs changed (increased or decreased)?
- Have any family members left home?
- Have any family members returned home?

Since the last review:

- Has your life insurance needs changed?
- Has your disability insurance needs changed?
- Has your critical insurance needs changed?

Since the last review:

- Has your tax planning needs changed (eg self-employment)?
- Do you require any tax help?

Since the last review:

- Has your ability to handle risk changed (up or down)?
- Has your investment time period (shorter or longer)?
- Have your goals and/or objectives changed?

A financial review is more than just “what is my portfolio worth.”

The above is only a sample list of the more common reviews that our clients review when they come in for their regular financial review.

Your personal situation may include issues that we have not raised but that may be very important to you example:

- Wills
- Power of Attorney
- Estate and probate
- Marital change
- Death in the family
- Inheritance issues
- Charitable gifting ...and more.

Make your own personal list and discuss it during your next financial review.

Bring this questionnaire to your next financial review

Your Financial Situation	Annual income	\$	
	Pension income		
	Rental income		
	Investment income		
	Other income		
	Residential property		
	Recreational property		
	Rental property		
	Savings account		
	RRSPs		
	Funds		
	Stocks		
	GICs		
	Bonds		
	RESPs		
	Mortgage		
	Loans		
Credit cards			
Other			
OTHER INFORMATION			
Number of dependents			
Retirement date			
Other			

Spouse's Financial Situation	Spouse's income	\$	
	Pension income		
	Rental income		
	Investment income		
	Other income		
	Residential property		
	Recreational property		
	Rental property		
	Savings account		
	RRSPs		
	Funds		
	Stocks		
	GICs		
	Bonds		
	RESPs		
	Mortgage		
	Loans		
Credit cards			
Other			
Other			
OTHER INFORMATION			

**Additional Concerns**

The vast majority of investors do not know that a large portion of their retirement income can be generated from investment growth, according to 2010 *survey* by Russell Investments and Harris/Decima Retirement Research.

By working with an advisor and investing in retirement solutions that can continue to grow during retirement, investors can feel assured knowing that close to 60% of retirement income can be generated during retirement from investments," says Fred Pinto, managing director of distribution services at Russell Investments Canada Limited.

Experts agree that investors should remain invested in *some* allocation to equities throughout retirement to protect against inflation and rising costs. "It's not the end of the investment journey when you retire. Retirement could be a 30 year vacation."

**De Thomas Financial Corp Survey**

Take a few minutes to do this survey and make sure that your "investments do not retire" when you do. Discuss this with your advisor in your next visit.

Rank and list three of your most important goals and objectives:

<u>RANKING</u>	<u>OBJECTIVE</u>
	Retirement planning
	Paying off debt
	Education funding
	Insurance protection
	Reducing taxes
	Estate planning
	Parental care
	Vacation planning
	Other:

When do you plan on being able to retire?

- Before 65 - at age \_\_\_\_\_
- At age 65
- After 65 - at age \_\_\_\_\_

At retirement, how much income will you expect to receive?

- 100% of current income
- 75% of current income
- 50% of current income
- Not sure how much I will receive

Is this (projected) retirement income adequate to meet your needs?

- Yes
- No

How much of your income do you save each year for your retirement planning?

<input type="checkbox"/> 15%	<input type="checkbox"/> 10%
<input type="checkbox"/> 5%	<input type="checkbox"/> ____ %

How much (total value) do you feel you would need at retirement?

- Ten times your annual salary
- Seven times your annual salary
- Five times your annual salary
- Not sure how much I will require

How did you react during the market downturn of 2008?

- I sold
- I bought and sought continuously
- I bought
- I did nothing but held on

What investment strategy makes you the most comfortable?

- Numerous trading
- Buy, hold and proper rebalancing

How often do you currently look at your investment holdings?

<input type="checkbox"/> daily	<input type="checkbox"/> weekly
<input type="checkbox"/> monthly	<input type="checkbox"/> yearly

How often would you like to meet with your advisor?

<input type="checkbox"/> monthly	<input type="checkbox"/> quarterly
<input type="checkbox"/> semi-annual	<input type="checkbox"/> annual
<input type="checkbox"/> other	

What do you consider to be a good return on your portfolio over the next ten years?

<input type="checkbox"/> 0%	<input type="checkbox"/> 2%
<input type="checkbox"/> 4%	<input type="checkbox"/> 6%
<input type="checkbox"/> 8%	<input type="checkbox"/> 10+%

What is the lowest return you can tolerate over the next ten year period?

<input type="checkbox"/> -3%	<input type="checkbox"/> 0%	<input type="checkbox"/> 2%
<input type="checkbox"/> 4%	<input type="checkbox"/> 6%	<input type="checkbox"/> 8%

What is your approximate marginal (top) income tax rate?

<input type="checkbox"/> Not sure	<input type="checkbox"/> 10%	<input type="checkbox"/> 20%
<input type="checkbox"/> 30%	<input type="checkbox"/> 40%	<input type="checkbox"/> 45%

**Which additional financial services are you interested in reviewing?**

- RRSPs and retirement planning
- IPPs (pensions for companies)
- Income tax Pension Splitting
- RDSPs (disability savings plan)
- TFSAs (tax free plan)
- RRIFs (retirement income0)
- RESPs (education funding0)
- Trust Accounts for children
- Trust account for spouse
- Financial planning review
- Investment planning review
- Budgeting and annual cash flow
- Best rate savings account
- Best rate GICs
- Best rate Bonds
- Best rate Mortgages
- Best rate line of credit
- Best rate life insurance
- Best rate disability insurance
- Income tax planning
- Income tax preparation
- Self-employed tax advice
- Corporation business tax advice
- Wills and Estate planning
- Power of attorney (POA)
- Gifting
- Donations
- Other \_\_\_\_\_
- Other \_\_\_\_\_
- Other \_\_\_\_\_

