Retire up to 37% Wealthier?

An exclusive newsletter from William Barlow, CFA, CIM®, B.Sc., Investment Advisor, TD Wealth Private Investment Advice

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"Price is what you pay, value is what you get."
-Warren Buffett

Moving the Markets:

Year to date returns on the S&P TSX Composite Index ("S&P/TSX") are sitting at about 0.1% as I write this thanks to weakness in financials and energy which are key components of the index. The oil decline is largely exogenous in nature while the financial space has been spooked on housing and debt concerns (for long term context the financial index was up close to 30% in 2016)

William Barlow, CFA, CIM®, B.Sc.
Investment Advisor
TD Wealth Private Investment Advice
T: 416 512 6676
TF: 800 382 4964
F: 416 512 6224
william.barlow@td.com
willbarlow.com

Derek Yeung
Assistant Investment Advisor
derek.yeung@td.com
T: 416 512 6012

Stating the obvious, paying for something while receiving nothing or very little in return does not make sense. Being a rational human being demands that we put thought into the money we spend to ensure we are receiving something of perceived value in return. What one deems valuable is completely personal and independent to the next person, and therefore what you are willing to pay for a good or service is likely different than what someone else is willing to pay for that same service. This is generally how free markets work, whereby value is found through price discovery in the open market. New regulations which have introduced greater clarity and transparency into investment costs have brought the price/value paradigm front and center and has allowed some industry participants to trumpet the cheaper is better horn as a blanket statement regardless of ones personal circumstances.

To clear the air before getting into the weeds, I believe your costs should be transparent, well understood, and low! Paying high fees in an era of ultra low interest rates makes compounding wealth more difficult, which makes the introduction of this legislation timely and ultimately very positive for the consumer. It also forces investment professionals to be more competitive in their service offering and further forces the industry to better meet the needs of their clientele. All good things for the profession!

The statements suggesting that cheaper is better, in my opinion, is misleading for several reasons which are crucial to understand whether you're using a robo-advisor or other discount strategy. First, using an automated investing service does not have zero cost. The reality can be just the opposite and surprisingly expensive for a simple asset allocation tool. For example, for seven figure accounts and often times for accounts above $500,000, the cost of a full service advisor is comparable and in some cases less expensive than an automated service. Most important is the value a full service advisory team should bring from a service, planning, relationship, and customization standpoint. If you don't value a relationship, having phone calls and emails returned quickly, having transactions completed immediately, or having access to a number of highly accredited individuals whose only goal is to help you make smart decisions, then paying for service is less important. Similarly, if you don't require a tax plan, a retirement plan, adequate risk management, an investment plan, and complete flexibility with respect to investment options, paying for this expertise is also less important.

As you'll notice from Warren Buffett's quote above, it comes down to the value received for what you are paying, and the marketing statements about retiring with more in your nest egg are really about saving more by cutting out non-value added costs. On this note, there are a million ways to save money and help achieve a larger estate. For example, my back of the napkin calculations suggest moving from a Mercedes coupe to a Honda Civic could allow you to retire 37% wealthier, just as moving from a Honda Civic to a TTC Metropass could see you retire 36% wealthier. We've all heard that switching from a Venti Frappuccino to a more pedestrian daily coffee could increase your wealth by close to 10% if you pocketed and compounded those savings. The reality is that some people prefer the subway and some prefer to drive a car in the same way that some families require service and professional advice while other don't. We all know that not all advisors are created equal which makes it increasingly important to ensure that the price/value paradigm is working in your favor.

What I'm Reading: *The One Page Financial Plan: A Simple Way to Be Smart About Your Money* by Carl Richards. Most books about simplifying your finances and making boring, common-sense decisions, tend to themselves be a little on the dull side. This particular read is not only quick, but also slightly more interesting than it's brethren which amounts to a raving review. Time and again individuals are worried about the moving parts that tend to be exciting as opposed to the big picture, and this book does a nice job providing context to individuals outside of what the latest investment fad is or where an irrelevant benchmark might be.

Who I'm Following: The valuations of everything technology related have raised eyebrows of late given the relative performance of mega-cap tech companies and the outsized returns seen by this group. Given the so called tech wreck of the early 2000's, the past year has pundits claiming we're in for another crash which would confirm we learn very little in the long-term. Importantly, Dave Wilson of Bloomberg points out via Pavilion Global Markets that tech valuations, though more expensive than the broad market, are actually significantly less expensive, by a huge margin, than the year 2000. For example looking at the ratio of enterprise value to EBITDA, a common valuation measure, the MSCI Technology index is currently 17% more expensive then the broad market, versus 202% higher in September 2000.

Market Folly: Of the many errors investors make time and time again, confusing correlation with causation is right up there with concentrated speculative positions, the endowment effect, and chasing yield. Case in point is a recent back test that showed investing in an index of companies which had "Cat" in their names resulted in an astounding 849,751% return over a 6 year period. According to Dani Burger from Bloomberg who created the facetious back test, the likelihood of this strategy coming to market is small. It nevertheless garnered hilarious consideration despite the complete lack of economic intuition and common sense.

Reason to be Optimistic: It is said that capitalism rewards progress by enriching those who are innovative and productive. In the last year the market, or collectively the markets, have proven their resilience by shrugging off political turmoil in Greece, last years Brexit shocker, an oil price collapse and partial rebound, and of course the election of President Donald Trump south of the border. Of course there will be bumps in the road, but since the great recession almost ten years ago it would appear that when the dust settles and returns are looked at with the proper lens of time, capitalism again appears a tough opponent to bet against.

Outside the Office: Regular readers might note that I'm a month behind in getting this newsletter through marketing approval and into circulation which isn't the norm. Luckily I can fall back on the exciting excuse that Maria and I moved last month and are still slowly unpacking and settling into our new place which, with two little ones, has some much needed extra space.

Select Benchmark Returns – To February 28, 2017

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Comp (Canada)	-0.23%	9.13%	5.92%	CDN Bond Index	3.57%	2.99%	3.54%
S&P 500 (US)	5.83%	15.01%	12.98%	CDN Short Term Bond Index	1.24%	1.62%	2.17%
MSCI Europe	17.18%	17.70%	10.55%	CDN Long Term Bond Index	6.77%	4.83%	4.94%
MSCI Emerging Markets	11.25%	27.88%	4.91%	US$/CDN$	-3.49%	-2.97%	-5.18%
MSCI Far East	10.69%	16.59%	10.55%	S&P TSX Energy	-9.75%	4.41%	2.02%
MSCI World	7.92%	17.09%	13.05%	S&P TSX Materials	3.42%	8.39%	-3.10%

Source: TD PAIR, TD Securities

The Barlow
Wealth Management Group

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