Financial Advisor Selection

Choosing your strategic partners

An educational program for individuals and families anticipating or now in retirement

FIRST SOVEREIGN
INVESTMENT MANAGEMENT

Financial Advisor Selection

Choosing your strategic partners

"Your choice of people to associate with… is one of the most important choices you make. If you associate with turkeys, you will never fly with the eagles."
Brian Tracy

Learning about managing your financial affairs is a critical life skill to develop but there comes a time when all except the most extreme do-it-yourselfer choose to bring in some outside help.

The decision of which experts to enlist to help you navigate your financial affairs could be one of the most important wealth management decisions you make in life. It affects your peace of mind, your retirement lifestyle and who you associate with, it affects the legacy you are able to leave your heirs, and the task faced by your estate executors in resolving your affairs. It affects your life partners and family.

The first step in this process is building some awareness in personal financial planning. Many factors affect your personal financial plan and there are many variables in life that can make your plans different from the person sitting beside you, factors that are not always readily apparent on the surface. With an awareness of some of the elements of financial planning, you can begin to get an understanding of the issues most relevant to your situation.

Having a basic understanding of the issues you are facing will partially prepare you for seeking out expert assistance in ensuring you are doing the right thing with your financial affairs but it is not enough.

This workshop will help build your awareness of the different options in choosing experts you want to work with. It presumes that investment management is one element but not the only element of successfully managing your finances.

Upon completion, you should be aware of your options, of some industry terminology, and various considerations to choose the right match for you.

First Sovereign Investment Management Inc.

- Financial education and counselling
- Objective, unbiased courses
- Network of alliances with qualified professionals

Learning Objectives

- To have a basic understanding of wealth management alternatives
- To understand which alternatives best fits your needs

Agenda

- Introduction
- Your Financial Planning Needs
- Investments Channels
- Licensing
- Investment Style/Portfolio Mgmt
- Compensation
- Designations

" They deem me mad because I will not sell my days for gold; and I deem them mad because they think my days have a price.
-Kahlil Gibran!"

What do you want to learn in today's session? List 2 or 3 main points.

Financial Snapshot

How does your picture look?

Individually, answer the following questions:

Financial Snapshot

	Yes	No
1. Have you set specific, measurable and attainable short & long term goals?	❒	❒
2. Have you discussed goals with spouse/partner?	❒	❒
3. Have you planned and implemented strategies to achieve your goals?	❒	❒
4. Have you found advisor(s) to help develop & implement strategies?	❒	❒
5. Do you seek professional advice before making a major financial decision?	❒	❒
6. Do you have a clear picture of your current financial situation?	❒	❒
7. Do you complete annual Net Worth & Cash Flow Statements?	❒	❒
8. Would you say that your cash flow is under control?	❒	❒
10. Are you able to live within your means?	❒	❒
11. Do you make a point of being debtfree on your credit cards?	❒	❒

	Yes	No
12. Do you spend under 35% of your income on mortgage and consumer debt?	❒	❒
13. Are you using all mortgage minimization strategies available?	❒	❒
14. Do you invest money towards achieving your goals on a consistent and periodic basis?	❒	❒
15. Do you have specific and prioritized objectives for each of your investments?	❒	❒
16. Are your investments adequately diversified?	❒	❒
17. Are your investments suitable to both your emotional and financial risk tolerance levels?	❒	❒
18. Are you quite knowledgeable about investments OR educating yourself about them?	❒	❒
19. Are your investments organized in a tax-effective manner?	❒	❒
20. Do you have a tax-effective plan to save for your children's education?	❒	❒
21. Do you maximize your RRSP contributions?	❒	❒
22. Do you take advantage of income splitting strategies with your spouse?	❒	❒
23. Are you using all tax minimization strategies available to you?	❒	❒
24. Have you considered the effect of unexpected job loss on yourself and/or family, and calculated the cost?	❒	❒

	Yes	No
25. Do you have the most cost effective types of life, disability, home and auto insurance?	❐	❐
26. Have you determined how much cash/capital and income your family needs in the event of your death?	❐	❐
27. Are your affairs organized to minimize tax/probate costs in the event of your death?	❐	❐
28. Do you and your spouse/partner have valid wills?	❐	❐
29. Have your wills been reviewed in the last 3-5 years or since a major life change?	❐	❐
30. Do you and your spouse/partner have current Property and Health Care Powers of Attorney?	❐	❐
31. Do you have a practical plan for financial independence/security in retirement?	❐	❐
32. Are your retirement assets sufficient to allow you to retire when you want?	❐	❐
TOTAL “NO” RESPONSES		

How many “NO” points did you get?

Refer your point total to these general summaries:

Five points or less...

Looking sharp. Remember – financial planning is an ongoing process. It requires regular review and evaluation to ensure strategies will achieve goals.

Six to sixteen points...

Some problems with overall financial picture. Financial plan needs to be improved in order to achieve financial goals.

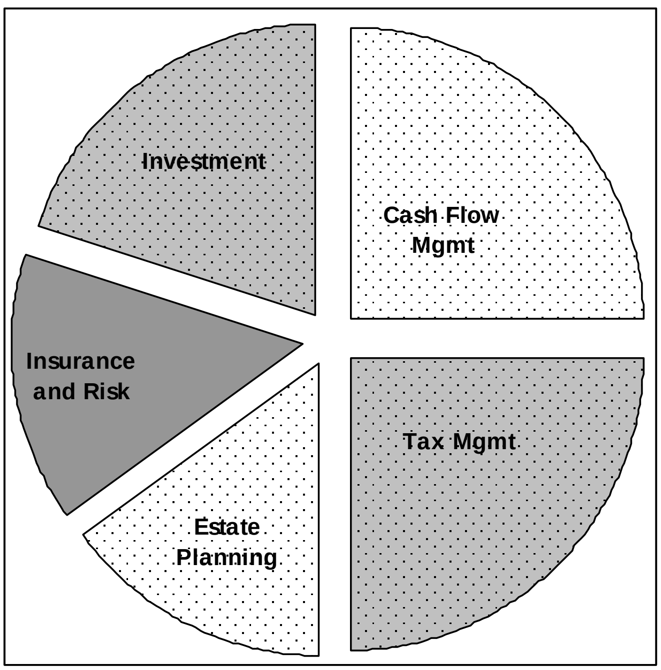
Seventeen to thirty-two points...

Greater focus needed. Use the resources available to develop a comprehensive financial plan.

The Financial Planning Process

The foundation of the Financial Planning process is understanding your cash flow over time. You need to think about how that is going to change over time, what are the tax consequences, what are the risks to your cash flow, and how can you strategize to maximize your cash flow.

Integrated financial planning may involve legal strategies, tax strategies, use of insurance and financial products to achieve your goals.



Financial planning is a very personalized process because it is driven by a multitude of factors that are very family-specific, such as:

- Personality
- Risks
- Resources
- Medical
- Leaving a Legacy
- Education
- Leisure
- Basic Lifestyle
- Personal Factors

The person or team involved in advising you must be able to integrate the relevant factors and develop solutions (if possible) that reflect all the family's issues.

Life Stage Planning Periods

When putting together a plan to manage your financial affairs, it is worth thinking about the typical life stages people go through. While those might not be applicable to all people, it is a starting point for considering what may become critical components to your strategy.

Life Stage Planning Periods

- Early career
- Mid-career
- Peak accumulation
- Pre-retirement
- Retirement

Stages and What Happens

Early career (20-35)

1) Education
2) First house
3) First car
4) Marriage
5) Daycare

Mid-career (35-50)

1) Children's education
2) Travel
3) Re-entry to work force from child care responsibilities

Peak accumulation (50-60)

1) Recreation
2) Children finished school
3) Pay off mortgage
4) Accelerated investing

Pre-retirement (60-65)

1) Firming up retirement date
2) Parent dependents
3) Estate

Retirement (65-100)

1) Maintaining comfortable lifestyle
2) Revising estate plans

Unplanned Curve Ball
(Divorce. Disability, Loss of Job)
1) immediate cash flow issues
2) retirement cash flow concerns
3) rethink tax strategy
4) rethink legal arrangements
5) new insurance/risk mgmt issues
6) investment plan revisions

Exercise: Financial Planning Needs

Take some time to think about your needs

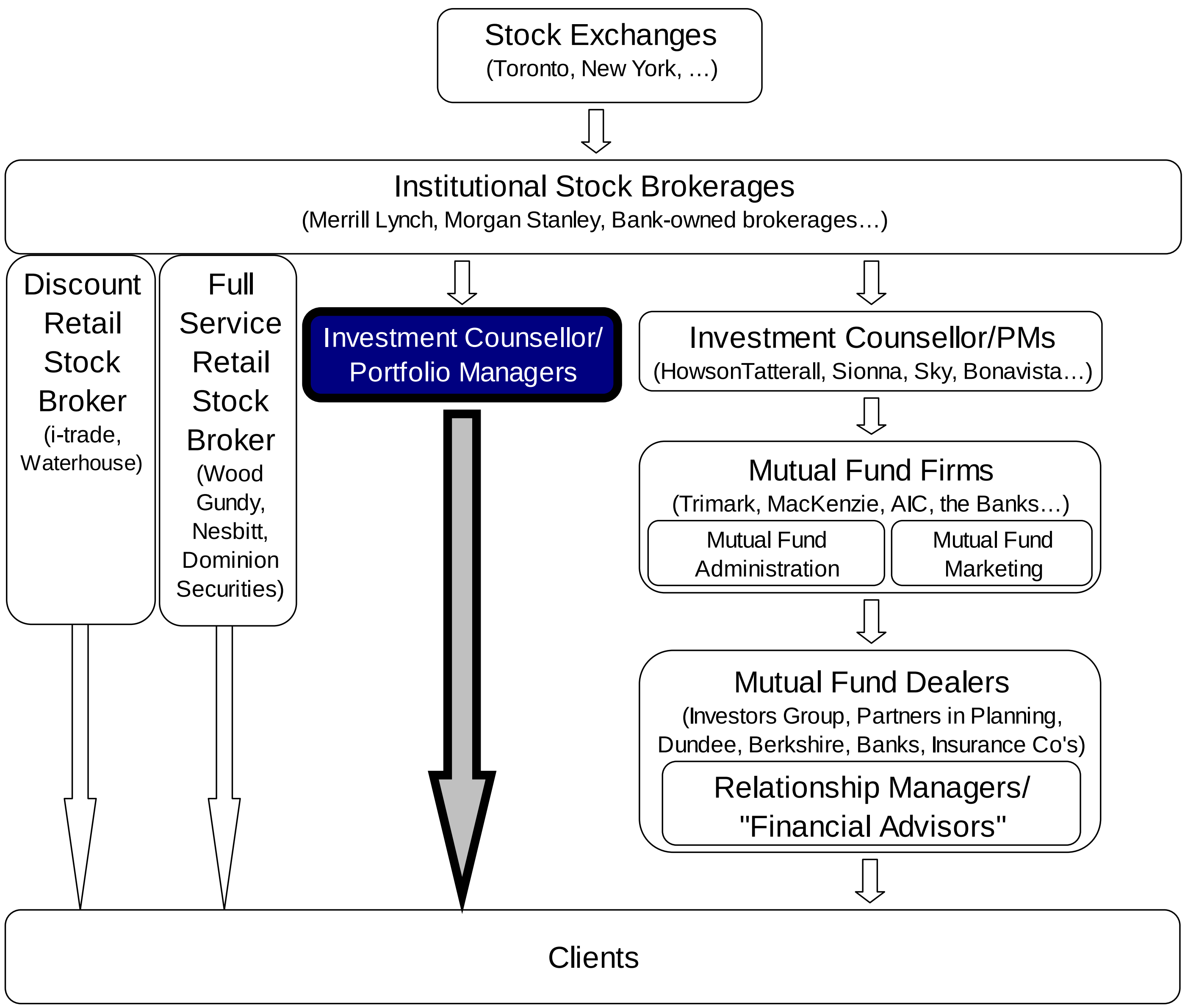
	Within 5 years	Between 5 and 10 Years
Life Stage Now:		
Saving for a House		
Mortgage		
Life and Disability Insurance		
Prenuptual agreement		
Will/Power of Attorney review		
Educational Savings		
Saving for Retirement		
Drawing on Investments		
Saving for major purchase		
Run a business/rental prop.		
Maternity/Paternity Leave		
Drawing from RRSP/RRIF		

Advice I will need		
Tax minimization		
Legal structuring		
Proper Insurance Coverage		
Investment Management		
Retirement Cash Flow Check		

Investment Management

When it comes to financial affairs, many people confuse financial planning with investment management. In fact, investment management is just one component of financial planning. That said, an investment manager can be in a strong position to provide input on the overall financial plan because he/she often gets to know a lot about your circumstances. Furthermore, almost all financial planners work hand-in-hand with a particular investment management process.
To begin the task of choosing an investment manager or financial planner, first it is critical to understand the various ways that you can get your investments managed. See if you can identify the process you have in place right now.

Anatomy of the Investment Industry



There are four primary ways to get your investments managed. There are also some fringe methods such as private mortgages, owning real estate, some quasi-investment products offered through insurance companies, and GICs/Canada Savings Bonds sold through bank branches.

Of the big four, the most common solution from days gone by was the traditional full service stock broker.

Mutual Funds

In about the late 1970s and early 1980s mutual funds became popular. A mutual fund is simply a group of investors pooling their money together to have it work more efficiently. For the average investor there were several factors that created challenges working with stock brokers that drove the success of mutual funds.

Trading commissions were high and investors usually bought in board lots (large quantities of shares) to get decent purchase prices. To avoid high trading costs and odd lot purchases, investors with a modest sized portfolio would buy big quantities of just a few stocks. This was a big problem. This might be ok if you want to gamble on a couple stocks with a bit of your money but for anyone with their retirement savings on the table, their brokerage account was usually not well diversified. This is not prudent investing. The mutual funds got around this problem by pooling the money.

The second issue is that stock brokers are not typically trained at analyzing companies for investment. This meant a lot of investing was done with little or poor analysis. On the other hand, investment counselors, who were normally reserved for the super-rich, could be available to regular investors if they pooled their money through mutual funds. Access to professional investment analysis was a key factor in the marketing of mutual funds to the public. Various companies made healthy profits creating and marketing mutual fund pools to the public,

Discount Brokers

Then in the early 2000s discount stock brokers came onto the market. The discount broker business was really driven by two factors. First the IT boom had really pushed down the cost of many elements of brokerage. Secondly, people started to wonder why they were paying for a broker who was adding little value. The discount brokerage solution was very much a low cost do-it-yourself solution to avoid full service brokerage fees that can kill returns.

Investment Counsel/Portfolio Managers

Through all that time, investment counselors existed for the ultra-rich and gradually started serving smaller and smaller clients. First they served them through retail mutual fund dealers, and later, as investment management costs declined, began serving them directly. Higher net worth families tend to gravitate to investment counselors because there is a higher level of service and there are fewer people in between the client and the person actually making the detailed investment decisions so they get a clearer picture of what's going on and get lower fees than mutual funds that can sometimes amount to 3-4% or more.

The Offering of Funds

- Through Mutual Fund Dealers
- Through Stock Brokers
- <u>Directly</u> through Portfolio Managers

Confusion Sets In

Recently a couple of factors have created confusion as to who you are dealing with in Ontario. First of all the term "investment counsel" has been dropped as a category and so now just the term "Portfolio Manager" is used. Unfortunately, anybody could call themselves a portfolio manager so the term doesn't clarify what you get.

Various people offer mutual funds. Through various arrangements, both full service and discount stock brokers now sell mutual funds too. In addition, insurance salespeople often sell mutual funds.

Also, Portfolio Managers (PMs) often offer mutual funds or pools. The difference is that when a PM offers pools, they are normally pools that the PM (which also carries an investment fund manager license) is managing, not funds being sold on behalf of another company.

Licensing of Investment People

- OSC
- MFDA
- IIROC

Licensing of Investment People

Often the simplest way to get an understanding of the role a particular advisor plays and how he/she fits into the puzzle is to ask under what organization he/she is licensed.

There are basically three organizations in Ontario that take care of licensing.

1) The Ontario Security Commission is a government body. It takes care of registering Portfolio Managers and Fund Managers (not to be confused with fund dealers). Note that Portfolio Manager and Investment Fund Manager are company-level registrations, not individual registrations. For individuals in those firms, the license is usually "Advising Representative." These people are the backbone of the investment management industry. They run pension funds, mutual funds, foundations and endowments, and direct investment management for high net worth people.

The OSC also takes care of registering stock brokerage firms and mutual fund dealer firms, BUT NOT the individual sales people.

You could say the licensing of salespeople has been subcontracted out.

2) The licensing of stock brokers is handled by IIROC, a self-regulatory organization (i.e. the brokerages, as a group, run the organization that licenses individual brokers). IIROC stands for Investment Industry Regulatory Organization of Canada.

3) Similarly, a self-regulatory organization called the MFDA (Mutual Fund Dealers Association) takes care of the licensing of mutual fund salespeople.

So simply ask a person, are you part of IIROC, the MFDA, or registered directly by the OSC and you should see where the person fits into the puzzle.

Discretionary Authority

A “financial advisor” can manage your investments on a discretionary or a non-discretionary basis. Discretionary means that the investment manager has been given blanket authority up front to conduct the transactions to manage your investments to the best of his ability. He does not get trade-by-trade authorization.

Obviously a Portfolio Manager running a mutual fund has discretionary authority. It isn’t imaginable that the fund manager could get all of the fund’s unitholders to agree on a particular stock purchase, let alone do it in a reasonable time.

Similarly, Portfolio Managers managing accounts directly for families, tend to have discretionary authority (as laid out in the agreement with the client). That does not mean the PM can do absolutely anything. For example if the investment management agreement said that yours was a conservative portfolio with no more than 30% of the money in stocks and the rest in bonds,, then the PM would have to stay within those ranges.

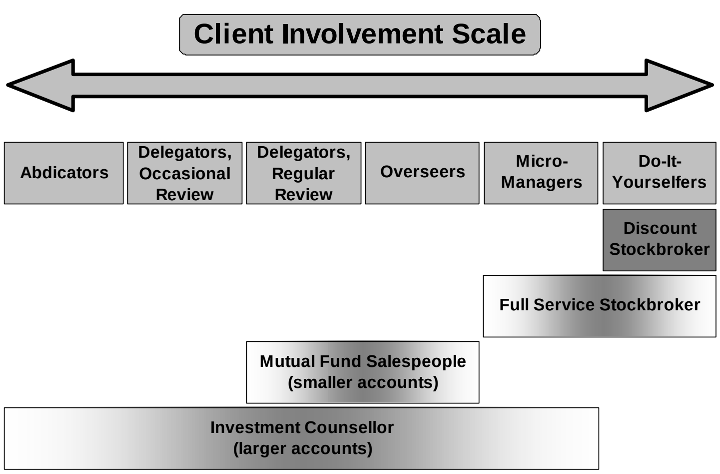
Discretionary authority is important for two major reasons. First of all, if you are a snow bird down south, are hospitalized, or when you die and your investments are in your estate, you want the comfort of knowing that proper action is being taken, even if you are not available. Secondly, without it, approvals are required and that can stall proper action.

For example, if a mutual fund sales person saw that corrective action needed to be taken and that salesperson had 900 clients (not unheard of in the mutual fund world) and had to meet them face to face to get the correction made, then with 4 meetings per day it would take 225 working days (i.e. a full year) to get the portfolios all changed. Frustrating if you're last! That doesn't even count time for the salesperson to find new clients.

Discretionary authority is conceptually similar to the authority you would give a trustee if you set up a trust. That trustee is required to do what is in the best interests of the beneficiaries. A PM with discretionary authority must act similarly.

IIROC licensed stock brokers and MFDA licensed mutual fund sales people are NOT ALLOWED to have discretionary authority; they can only have non-discretionary authority.

How involved would you like to be?



Investment Styles

- Value-Growth Continuum
- Deep value
- Value
- Growth/Reasonable Price (GARP)
- Growth
- Technical/Momentum Investing
- Indexing/Buy and Hold/Passive
- Blend of all styles

While we investment managers all feel that investment style is important, in reality the most crucial two items are diversification and rebalancing.

<u>Crucial</u> Portfolio Management

- Diversify: 30-100 securities
- Rebalance: quarterly

All prudent portfolios should be diversified. Ideally, your portfolio should hold no less than 30 individual securities and no more than roughly 100. If you choose to go with funds, instead of individual securities, ask how many securities are in each fund and if there are any overlaps. One exception to the 100 security limit would be an S&P 500 index fund that has exposure to almost 500 stocks.

Advisor Compensation

Depending on the type of advisor you work with, you will be charged fees in different ways. Every compensation structure will inevitably have its biases. Below are the typical compensation structures, but there are many other variations

How You Might Pay

- Sales commissions
- Ongoing management fees
- Transaction fees
- Account administration fees
- Hourly fees/Flat per-service fees
- Performance fees

Transaction Fees

The most common transaction fee is the trading commission charged by a brokerage for trading stocks. The fee can be quite modest for a discount broker or quite high for a full service broker. There is typically a fee for buying and then another fee for selling.

With transaction fees, there is a risk that the advisor will coax you to trade more than necessary in your account to generate fees. Conversely, if you are not willing to trade, you might get ignored.

Sales Commission

These generally occur for mutual fund dealers. Common terminology is Front End Load or Deferred Sales Charge (DSC). When the advisor sells you a fund with a load or sales charge, they get a sales commission. DSC generally means you get penalized with a fee if you take your money out early because the fund company has already given the commission to the salesperson. DSCs normally decline over 5-7 years, depending on the fund. Some mutual fund sales people will sell you a fund with a front load of zero percent. This means they are not taking a sales commission.

There are at least two risks with sales commissions. First of all occasionally, a new fund that is trying to win new clients will pay the mutual fund salesperson an above average sales commission to steer prospective clients to the fund. The fund may not be your best option.

Secondly, when a person is compensated on sales commissions, there is a risk that once you are a client they will focus on getting new clients rather than serving your account.

Ongoing Management Fees

Management fees are earned by portfolio managers, mutual fund salespeople (called trailers) and stock brokers if they sell you a wrap account. A wrap account is one where you are charged a percentage of assets fee instead of a per-trade brokerage commission. Management fees paid to the relationship manager are intended to compensate for managing the client relationship.

The risk with management fees is that the person will want to manage more of your assets in order to earn more fees.

Account Administration Fees
These fees are one way certain firms earn profits while making their management cost look inexpensive. For example, some discount brokerages might charge an RRSP administration fee while others waive the fee. Some may also charge a minimum fee if there are no trades to generate commissions. Administration fees really hurt the profitability of small accounts so watch for them.

Hourly and Flat Per-Service Fees
These fees are usually charged for advisory work by financial planners. The fees could be for financial planning, direction on a will, creating/managing a tax reduction strategy, of establishing an investment asset allocation.

The risk with hourly fees is that the advisor coaxes you to get more work done to generate more fees.

Performance Fees
These fees are usually reserved for specialty high net worth hedge funds and can commonly cost 20% of profits above a certain predefined level. They are often charged in addition to a management fee. In a way, performance fees are the best aligned with investor goals but they are usually so excessive, and in addition to standard fees, that they become unappealing.

Paying for A and Expecting to get B

One trap people always fall into is expecting to get B when the advisor is compensated for A.

If you are hoping to get extensive financial planning from an advisor who is compensated through product sales commissions you will be undoubtedly let down. In all likelihood the advisor will do just enough financial planning to land you as a client and not a bit more. Unfortunately there is a steady stream of people lured into thinking they can get something for nothing.

Even if the advisor were willing to put together a financial plan for you, it is probable that he has done so few that he does not have the skill set with completing one.

Separately Managed Accounts vs Pools

Since some stock brokers and PMs offer separately managed accounts (SMAs) and pools, which is right for you? There are pros and cons to each.

First of all, some people have the sense that pools such as mutual funds are safer. In general the risk is a function of which securities are owned. If the same securities were owned in the pool or the SMA, that would represent the same risk. Safety comes from prudent structuring of the stocks, bonds, etc. into a well0diversified portfolio that's appropriate for you.

SMAs	
Pros	**Cons**
• Opportunity for tax strategy by triggering losses or gains in your account • Fees usually tax deductible • Fees usually decline with increased account size • Fees are directable • Can tolerate/ accommodate your legacy investments • Can adapt better to unique investment constraints • No fund administration expense	• More difficult to access derivatives like futures and options • More difficult to invest in niche markets like exotic countries or hot new technologies • Might have slightly higher trading fee

Alphabet Soup
We've all seen people with an alphabet soup of acronyms on their business card behind their name. What does it all mean?

Is the Designation Worth Anything?

- Licensing designations
- Educational designations
- Industry Associations

As mentioned previously, there are basically three licensing categories:

- OSC registration of PM companies and Registered Representatives
- IIROC registration of stock brokers
- MFDA registration of mutual fund salespeople.

It is also common to see LLQP, which is the designation to sell life, disability, and critical illness insurance

Education

The two most important designations are the CFA for people actually analyzing/choosing securities and the CFP for people focused on financial planning.

The CFA Charter (from the CFA Institute) is a 3 year/3 exam program that requires completion of a university degree. It is a global designation. Becoming a CFA Charterholder is extremely difficult. For most exams only about 1/3 of students pass. That means that only about 3-5% of the people who start out in the program get through all three exams without failing any. Many people who complete the CFA program have a Masters of Business Administration (MBA), masters of finance, or at least a business degree before they attempt the CFA program. The program also requires 2 years of related work experience.

The CFP designation (from the FPSC) is focused on financial planning. It also has a work experience requirement. The CFP designation requires completion of a series of courses culminating in a course on comprehensive financial planning.

Unfortunately, many salespeople have realized that the CFP designation is useful in winning new clients and so they carry the designation without and intent to carry out any financial planning.

IFIC, CSC
These are very basic courses/exams used to license advisors.

Advocis
This is an industry association targeting financial planners that has traditionally drawn its membership from the insurance industry.

Recap

- Financial Planning is more than Investing
- Know what skills you need
- 4 main investing options
- Discretionary or non-discretionary
- SMA or pooled
- How you will pay
- Designations and registrations

What does my Action Plan need?

Changing advisors?
Establishing my risk tolerances and goals?
Rebalancing the equity versus bonds versus money market in my portfolio?
Updating records on what I have where?
I need a game plan from start to finish

Action Plan

ACTION	DETAILS	TARGET DATE

Strategic Wealth Management

Preparing for Retirement – A: Getting Started

"If you don't know where you're going, any road will take you there."-George Harrison. Are you on path to achieve your goals? In this workshop we focus on putting a process in place to achieve your goals. We focus on cash management strategies and the wealth management process. Secure the foundation of your financial plan

Personal Investing – A: Core investing components applied

"Fads are the kiss of death. When the fad goes away, you go with it."-Conway Twitty. Understanding core concepts will help you identify and protect yourself against investment fads and build a solid investment strategy. In this workshop we talk about investment components, types of risk and how to avoid them, and the factors that contribute to your successful investment strategy.

Personal Taxation – A: Introductory concepts in tax minimization

"Income tax has made more liars out of the American people than golf has." –Will Rogers. Give yourself credit! Credits, that is… and deductions. This workshop looks at how our progressive tax system works and explores some of the core tax reduction strategies we should consider for LEGALLY minimizing our taxes.

Life Insurance & Estate Planning: Understanding the importance of security & structure

"Certainty? In this world nothing is certain but death and taxes." –Benjamin Franklin. Dying. The material impact of death is not something we really want to think about, much less talk about. But, it's something we need to know about. This workshop will look at the various components of a well-structured estate plan, including wills and will preparation, insurance (needs, amounts, types), Powers of Attorney and a brief introduction to trusts.

Personal Investing – B: Investment planning concepts & strategies

"More important than the will to win is the will to prepare." -Charlie Munger. Take the next step in your investment education by participating in this workshop. The session will focus on strategic investment issues such as risk reduction through diversification, asset allocation and the tax implications of various investment choices. Look at the various investment styles and objectives of the funds available to you.
Questions and discussions are encouraged and are an integral part of this workshop.

Personal Taxation – B: Comprehensive strategies: A longer-term perspective

"Never make anything simple and efficient when a way can be found to make it complex and wonderful." –Unknown. Now that you understand basic tax planning, you will appreciate the more advanced concepts and strategies discussed in this workshop. In this session, we will look at tax planning as a family unit, tax shelters, income splitting/ attribution, and developing an effective tax mBinimization plan. We aim to make simple what the government has made complex!

Preparing for Retirement – B: Focus on financial planning

"Retirement kills more people than hard work ever did." –Malcolm S. Forbes. To enjoy your golden years, you should take as many stressors as possible off the table. Financial worry is a big category. You have retirement dreams ahead. It is time now to focus your financial planning activity. This workshop will take a detailed walk through the 6 steps of building a solid retirement financial plan. The session will cover financial objectives and needs in retirement, income sources, identification of problem areas and corrective measures, tax & investment issues. This workshop ties together all the concepts we have learned so far. Finally, you will create an action plan.

"Plans are only good intentions, unless they degenerate into hard work." –Peter Drucker
Take action on what you've learned from these workshops

Resources

Service Providers

First Sovereign Investment Management Inc.
Phone: 416-489-4843
Toll-free: 877-389-4843
pfettes@firstsovereign.com
www.firstsovereign.com

Encompass Capital Wealth
Toll-free: 888-837-8631
will.circelli@encapwealth.com
www.encapwealth.com

Efficertain Mortgage Investing
Phone: 416-489-4843
info@efficertain.ca
www.efficertain.ca

Web Sites – General Information

Tax Tips
Various data on personal income taxation in Canada
www.taxtips.ca

Government of Canada Retirement Planning
http://www.servicecanada.gc.ca/eng/lifeevents/retirement.shtml

Web Sites - Regulators

Ontario Securities Commission (OSC)
Regulator for investment fund companies (not fund dealers) and discretionary portfolio managers
www.osc.gov.on.ca

Investment Industry Regulatory Organization of Canada (IIROC) –formerly Investment Dealers Association (IDA)
Self-regulatory organization for stock brokers
www.iiroc.ca

Mutual Fund Dealers Association (MFDA)
Self-regulatory organization overseeing mutual fund dealers
www.mfda.ca

Web Sites – Professional Associations

Portfolio Management Association of Canada (PMAC)
Represents Canada's discretionary managers
www.portfoliomanagement.org

CFA Institute
Worldwide association of CFA charterholders
www.cfainstitute.org

Financial Planning Standards Counsel (FPSC)
Represents Canada's certified financial planners
www.fpsc.ca

The Law Society of Upper Canada
Help with choosing a lawyer or paralegal
www.lsuc.on.ca