YOU GET WHAT YOU PAY FOR

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Most of you (…my clients) wouldn't dream of attempting to manage your own investment portfolio, let alone tackle all the complexities of creating - and sticking to - a comprehensive written financial plan. You're happy with the work I do for you and recognize the value you receive, net of the cost.

However, there are other investors who seem to want to believe that somehow they can actually get what they don't pay for? As Oscar Wilde once said, ***"Some people know the price of everything and the value of nothing."***

In lieu of working directly with someone like me (i.e. hiring your own portfolio manager), they may choose to become a 'do it yourself' investor; use a 'robo-advisor'; or simply take a 'passive' investing approach through index investing.

However, despite what their promoters (and those TV commercials) would have you believe, these approaches generally don't work AND they can actually be much more expensive than hiring a 'pro', not less! In fact, they may even have the potential to be catastrophic to your overall financial well-being.

Allow me to briefly touch on each of the above alternative approaches to working with an investment professional. I'll explain why they don't really work for most investors, and how they can actually be more expensive – not less. Hopefully this might answer any questions you may have – and most important, reinforce your decision to hire your own portfolio manager.

The 'do it yourself' (DIY) investor believes investing is easy and therefor anyone can do it. The truth is, anyone with even a very small amount of money can become an investor. But the fact is, very few can become a successful investor. Fewer still can be successful over any prolonged period of time, AND do so NET of the costs. (Yes, there is indeed a cost to DIY investing – and that cost is likely much higher than they might think or be willing to acknowledge. More on the true costs of DIY investing in a minute).

The DIY investor, perhaps unknowingly, is insinuating that achieving investment success is somehow easy? But if they can do it, by default that must also mean anyone and everyone else can too. OR, do they actually believe that only they themselves can do it? In other words, that they are somehow 'smarter' than everyone else?

Here is what Charlie Munger had to say, ***"It's not supposed to be easy. Anyone who finds it easy is stupid."*** (His words, not mine!)

In my own experience, whenever I've had a conversation with a 'do-it-yourself' investor, the notion of 'knowing just enough to be dangerous' always comes to mind. For example, they all seem to share one common flaw: they are always buying whatever has already gone up a lot. In other words, they're continually late to the party! The most basic, fundamental rule of successful investing is "buy low/sell high". They're not even getting the first and most rudimentary part right!

These conversations typically go something like this: *"I'm loading up on XYZ* (whatever is already really "hot"), *and you should too! Hey, by the way, can you explain to me what the difference is between an RRSP and a TFSA?"* In other words, what they really need is help from someone who actually knows what they're doing. But because they're not willing to pay for it, they're not getting that help. So whenever they can, they ask someone like me. To which my reply will always be: get help!

Of course, knowing just enough to be dangerous with a paint brush in one hand and a can of paint in the other is one thing. But when it comes to managing your own financial future; that's a whole other matter.

Spot quiz: how do smart people manage their money? Answer: they don't. As the saying goes, ***"A lawyer who represents themselves has a fool for a client."*** The smart money hires an accountant for complex accounting needs, a lawyer for legal matters, and a professional to manage their investment portfolio. Too vital, AND too expensive, to leave such important matters to anyone but a qualified expert. As my client, you are among the smart money, recognizing that - while making money is one thing – managing it is a whole other matter.

As for the true cost of DIY investing, I'd have to ask – what is your time worth? Those who compare the cost of hiring an expert to doing it themselves seem to give their own precious time zero value? In their defense, I'd argue that their time is clearly worth something. As for the retired DIY investor, I might suggest their time is worth more to them than it ever has! To determine the true cost of doing it yourself, I think the investor needs to realistically estimate how much time it'll take; not just to invest but to do so successfully - and then give their own time an hourly rate.

Perhaps most important, this is not to mention the very real cost of mistakes made that quite simply would not likely be made when relying on the wise counsel of an industry veteran. A large part of my job is to alleviate stress for my clients; the stress that comes with having to make your own investment decisions. It's difficult to put an actual dollar figure on the value of this, but I think anyone would agree that less stress is worth something!

The 'robo-sadvisors want you to believe that you can have 'Ritz Carlton' type of service and results for Motel 6 rates (or in this case, fees).

The two main robo-advisor platforms in Canada have been doing a ton of primetime advertising for a number of years now. I'm sure you've seen the TV commercials. While these ads may indeed constitute some 'clever marketing', I have to wonder what their advertising budget must be? It has to be in the millions of dollars each and every year.

So to those who have bought into the notion that robo-advisors represent their path to investment success – AND offers a 'cheaper' solution, I'd have to ask one simple question: who do you think is paying for all that very expensive advertising? Here's a not so subtle hint: YOU ARE! How? That's easy… through the fees and commissions those robo-advisors are collecting from you.

(As your portfolio manager, I don't spend any money on advertising. Or should I say, YOU don't spend any of YOUR money

advertising for ME! First and foremost, I'm not looking to work with anyone and everyone. But more important to our mutual success, YOU do enough 'advertising' for me. Of course, this is NOT done by me running (and you paying for…) expensive marketing campaigns, but through the referrals you send me each and every year. In turn, this allows me to focus all of my time and effort on helping you reach your goals. That's what I love to do, and it's why I got into this business in the first place; not trying to come up with the next 'clever' marketing campaign).

So we know that even those investors who choose to work with a robo-advisor pay money in fees or commissions (again, to pay for all that expensive advertising!). But what do they actually get for those fees? Here is Investopedia's definition of a 'robo-advisor': "Robo-advisors are digital platforms that provide automated, algorithm-driven financial planning services with little to no human supervision. A typical robo-advisor collects information from clients about their financial situation and future goals through an online survey and then uses the data to offer advice and automatically invest client assets."

Is that what anyone who is serious about their financial future is actually looking for; ***"automated financial planning with little to no human supervision"?*** Or how about the collection of your ***"future goals through an online survey"?*** And finally, do you really want anyone or any 'thing' to just automatically invest your hard-earned investment assets?

In a nutshell, I think robots can and will continue to eliminate a lot of jobs. But of course, I'm not convinced that portfolio management or financial planning are among them. Achieving long term success has a lot more to do with your investor temperament, and dealing with inherent investor emotions like greed and fear. Not filling out an online questionnaire. Do you really want to discuss how best to go about achieving your financial hopes and dreams through an online survey? Or would you not agree that something as important as your financial future is best discussed with the help and assistance of a financial professional…preferably a human?

As for saving money through a 'robo-advisor', I'm sorry but I think you (AND your money!) benefit significantly from actually having someone to talk to regarding your fears, concerns, aspirations, and dreams. Perhaps most important, someone to simply answer any questions you might have. I don't think a computer or a robot can or will ever replace that. Again, this may not be a benefit that is easy to put a dollar figure on. But I think most would agree that this human interaction does indeed have a ton of value.

Briefly returning to the subject of 'what you get' when dealing with a robo-advisor, they'd like you to believe you're getting the same for less. To which I would kindly ask, when has the notion of actually getting something without having to pay for it ever really worked? Well in early 2020, it clearly didn't. At least, not for investors dealing with robo-advisors.

After COVID-19 hit North America in a very significant way in early 2020, the stock market cratered. And it did so very abruptly – as I'm sure you can recall. Those who chose to rely on a robo-advisor needed to make some quick decisions. But at that critical time, right when they needed service (and most important, some sound advice), this is what happened (as captioned from a March 25th headline from the Financial Post): ***"Retail investors say they're losing thousands as brokerages struggle with record traffic due to coronavirus panic".*** Turns out, maybe the notion of getting the same for less wasn't so realistic after all. And maybe that 'clever' marketing wasn't quite so clever either.

The article went on to describe ***"Multiple outages and apparent bugs in systems buckling under a huge spike in trading volume costing investors 'sometimes six-digit' losses."*** So much for saving money!

Passive/index investing means you'll always underperform the market – NET of costs.

You can never outperform the market in an index fund or exchange traded fund (ETF). In fact, as an index investor, you ARE the market.

Nowadays you can invest in virtually any index, geography, or sector through an ETF. This is commonly referred to as "passive" investing. Rather than "actively" trying to pick stocks within the index – you simply own the entire index.

While ETFs typically come with very low fees (but not always), there are a few obvious drawbacks here – at least, as I see it.

When you buy an index, you're going to get a lot of great businesses within that index - and a lot of really bad ones too. These are stocks that you'd likely never want to own directly. But now you DO own them?

As an index investor, you're going to own a lot of very attractively priced stocks - and a lot that are grossly overpriced too. These stocks are trading at premiums that no rational, reasonably intelligent investor would ever agree to pay. But you just did!

The 'indexers' might counter the above with the argument that over the long term, the stock market (and therefore, its corresponding index) has done quite well, despite the facts I bring to light above. And in that regard I could not agree with them more. Indeed, the stock market in general has performed very well throughout history. But what about when it doesn't?

As far as indexes go, the S&P500 index, made up of some of America's greatest and most globally recognized companies, is one of the best there is. Even full-time professional money managers with a focus on U.S. stocks have a hard time beating the S&P500 index. But there have been a number of prolonged periods where even the vulnerable S&P500 performed very poorly for a long time, and did so with a ton of short-term volatility along the way.

By a "long time" I'm talking about a range-bound (i.e. flat) market that goes on for as much as a decade, or in many cases, even longer. In these instances, the index investor made no money from beginning to end, while seeing huge fluctuations in the value of their investment in the interim. In the meantime, a professional money manager can seek to add value during a range bound market by: (1) focusing on dividends (i.e. get paid to wait); (2) taking advantage of the volatility (buy low, sell high); (3) overweighting more growth-oriented businesses that may still be able to make money in an otherwise 'flat' market; and (4) increase exposure to other asset classes, like bonds.

Finally, what should the index investor do when 'the market' as a whole is very expensive? Ironically that's exactly when ETFs are most popular (there's that 'buy high' mistake again!). Historical data routinely shows that when the market is expensive – right when the typical index investor is piling in, the corresponding long term returns thereafter are horrible.

In my opinion putting your money in an index is like being a passenger on a rudderless ship, with no-one at the helm. 'A rudder and a captain would have cost more money. Who needs them anyway?' With relatively calm seas and a favourable tailwind pointing you in the right direction, you might get to where you want to go. But what do you do when the wind changes direction, or when you're caught in the eye of a bad storm? Do you then take the helm yourself, having little or no experience whatsoever, and right when you need a skilled captain the most? I think in that scenario the index investor is far more likely to end up sinking the ship, costing them some of their life savings! Had they paid a little extra, they wouldn't have eliminated the storms, but they would have had confidence in knowing that an experienced captain is at the helm. Someone who can 'right the ship' whenever the winds take them off course. Most important, someone to keep them afloat, seeing them through to their ultimate destination - safe and sound.

When I think of the approach of simply buying the index, I'm reminded of the following quote from Nick Murray, ***"Mediocrity is common and it feels awful. Excellence is rare, and it feels wonderful. Seek excellence!"***

In my opinion passive investing is the epitome of mediocrity. Your results can only be 'average', and no better. Of course, I believe in active management; the ability of a professional portfolio manager to add value over and above the applicable index, over time, and net of fees. While many don't outperform the relevant index, countless others do. Indexers and ETF investors aren't saving money at all. They're losing out on the very real opportunity to be above average.

My advice: seek excellence. It may be rare, but it feels wonderful!

In summary…

My 'thesis' for the value of working with me is based on the premise that you're far more likely to reach your financial objectives when choosing to work with a full-time, experienced financial professional – as opposed to going it alone. Further, and perhaps most important, we will do so while alleviating a lot of stress, confusion, and uncertainty along the way.

Do-it-yourself investors and part-time stock pickers always feel emboldened when a large upward move in the stock market has already occurred, and when a rising tide has already lifted everyone's boat. But then inevitably another storm arrives, and the market comes crashing down again. Hopefully at that point they'll learn a lesson, and seek expert assistance. Some won't though – and will repeat the same mistake again and again. (Or they'll then resort to applying their 'skills' to investing in real estate. Where they'll sabotage a sure-thing once again, by applying the same futile approach: buy high, sell low – and repeat until broke!).

For the final word on this, I'll defer once again to Nick Murray, author of 'Simple Wealth, Inevitable Wealth'… ***"All my years and all my experience tell me that most investors will achieve far superior lifetime results – with far less pain and suffering – working with a caring, competent and above all, trusted financial advisor".***

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