NATIONAL POST

Efficient way to build wealth;
Stockman advises paying off debt as form of saving

When he decided to leave fund giant Investors Group Inc. to start up his own fee-only financial-planning firm, Gordon Stockman knew there was plenty of room to cut investment-management fees and still have a viable business practice.

Prospects who visit Efficient Wealth Management's storefront on Lakeshore Road in Port Credit, Ont., get a brochure titled Costs do Matter. Many are "paying too much for too little," says Stockman. "They are supporting their mutual-fund company's efforts to find new clients, not just manage the existing ones."

The brochure shows how over 20 years, cutting annual portfolio costs by 1% can save clients hundreds of thousands of dollars. With a 7% return with high-fee mutual funds, a starting portfolio of $700,000 would grow to $2.7-million over those two decades. At 8%, an otherwise identical nest egg grows to $3.26-million, Stockman estimates, for $562,000 in savings.

The extra 1% comes from replacing high-fee actively managed mutual funds with low-cost index mutual funds or exchange-traded funds (ETFs).

However, as an independent, fee-only financial planning shop, Efficient Wealth does not sell such investments directly. If clients want their portfolios managed or trades executed, Stockman has "reciprocal support arrangements" with certain dealers, advisors, brokers and investment counselors.

Stockman is a chartered accountant and a certified financial planner, restricting himself to creating comprehensive financial plans and investment strategy reports. "Financial planners don't manage money. We manage people, which is often forgotten in our business."

One of the more telling lines at his Web site at www.efficientwealth.com is "We get paid for what we do, not for what we get you to do." (My emphasis.)

Stockman says investments are "the last and least important step." However, when clients are ready to take that step, depending on their wealth, they are referred to a discount mutual-fund specialist, a securities dealer or an investment counselor. They in turn hire Stockman on a retainer basis to provide financial planning for their clients.

Clients with less than $250,000 use fund specialist Jim Hawtin to buy mutual funds through Agora e-client, offered by Kleinberg, Ont.-based Agora Financial Services Inc. Agora has a monthly subscription model like that of troubled ASL Direct.com, using F class funds or rebating trailer fees from regular funds. Hawtin mostly sells index funds from DFA Canada or TD Asset Management.

For those with $250,000 to $750,000, Efficient Wealth uses Beacon Securities' Michael Sgarbossa, who implements mostly ETF trades through TD Waterhouse Canada Inc. Clients above $750,000 are referred to a short list of investment counselors.

Before his nine-year stint at Investors Group (from 1996 to 2005), Stockman was an accountant and senior manager for various corporations. Gradually, he shifted from developing business plans for companies to creating long-term strategic business plans for ordinary people and their families. Stockman also lectures in financial planning at George Brown College. He tells students the same thing he tells young families: You must be a saver before you can be an effective investor. He considers paying off debt a form of saving. By preparing final tax returns, Stockman sees firsthand how much tax affluent seniors (or their estates) end up paying on RRIFs. Thus, younger clients in the lowest tax brackets are seldom urged to make RRSP contributions.

"They're not getting a bargain when they're in the lowest tax bracket. The RRSP is an absolute winner if you're in the highest bracket and there are good odds if you're in the middle." However, Stockman says those in the lower tax brackets will benefit from the new tax-free savings accounts (TFSAs) when they debut next year.

Stockman is not as enamoured of leverage (borrowing to invest) as he once was at Investors Group. "Leverage works in Canada because of high taxes. It's a sound strategy on paper but it's back to managing people, not money. It's a proven fact people have more trouble with their investments when they've borrowed money. Emotions are magnified." At IGI he inherited several troubled clients who were "pulled through the ringer on leverage loans and didn't like it."

Stockman says investors severely underestimate how much time it requires to build wealth. As portfolios grow, the role of financial planners is to soothe fears clients will lose what they have so far accumulated.

Equally, when markets are booming, planners need to throttle back client greed for more. "Greed will lead you to a portfolio that may not be stomached on the worst of days."

Stockman views his job as helping clients to find balance between their financial and daily lives. Sometimes, he may even "stop them from oversaving. It sounds silly but you need to do what you need to do but also enjoy today." There is a double-whammy effect from teaching clients how to save because each $1 saved is $1 they didn't spend. So by learning to save more, you're also learning how to spend less --a useful survival skill in retirement.

"It usually takes less effort than people think to get where they need to go because of the double effect: Slowly increase savings to the point where they're putting away 12% of income and still live a life."

For those who start early, the 18% of earned income for RRSPs may be more saving than is necessary.

"If you save 18% from the day you start work and are in a middle-income place making $40,000 or $50,000 a year, you end up with a better life in retirement than you had getting there. To save at that rate you had to scrimp on everything else."

He says Mercer's actuary Malcolm Hamilton is "absolutely correct. Canadians are so used to being poor in their working years that they find retirement easy."

While a typical client may be financially able to take early retirement, most wait until their last child graduates from university. Ironically, many of them return to work soon after, Stockman says.

"People who retire and go back to work are the happiest people we know. Now they're working because they want to, not because they have to."

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