



Value for Money Investing by Gordon Stockman, CA, CFP
Time to Act

Everyone who has been reading this column for the last 10 issues will know that I try very hard not to use this space as a sales spot. It is my intent to educate and provoke thought about financial planning and encourage you to think about how much you are paying for your investment services. This current crisis leads me astray here as I must speak from the heart and it will sound like a sales pitch, since what I know best is my own client base and my own business.

My guest blog last month on the National Post's "Wealthy Boomer" website (<http://network.nationalpost.com/np/blogs/wealthyboomer/archive/2008/10/24/the-right-perspective.aspx>) was prompted by all the angst I was hearing about the market collapse; that it was going to cancel, set back, upset or otherwise disrupt people's retirements. The truth of the matter is that if the market correction has upset your plans, IT IS YOUR PLAN THAT IS WRONG!!! It is not a market problem at all.

We have hundreds of clients, almost all exposed to the equity markets and none, yes NONE, are going to be changing their retirement plans. How is this possible? Simple, we take clients' desire and need to achieve financial independence much too serious, to leave it to the whims of the markets, so we plan ahead and remain disciplined. We do not ignore risk, we respect it. We know markets can correct severely and remain watchful. We do not get greedy, and we face our fears head on.

We often hear about the need for advisors to call their clients at these great moments of stress, so let me relate a story about that. One of our client couples had retired about 3 years ago. Previous to becoming our clients, they self managed their portfolio, to mixed results. The markets were rising steadily but they felt an unease because deep down they knew that they did not fully understand the stock and bond markets. They became our clients. Last month, I called them to set up a meeting to review their plan, talk to them about their portfolio and discuss some of the opportunities presented by the down markets. Their words to me were basically, "...are you sure you want to come out to see us? We are sleeping very well at night and there is no reason to disturb that." This is in the midst of the largest market correction since the 30s. They saw no upside to the meeting because they were already sleeping very well each night. How could I make that, "better?"

How did we position our clients for this type of reaction? Why were they sleeping well? Certainly, not because we accurately predicted the extent and timing of this correction. We did it by being prepared. We did it by planning carefully. We did it by working hard at understanding our clients' response to fear, greed and risk. We did it by knowing and believing that we have no idea where the markets are headed tomorrow or why they did what they did yesterday. We respect our lack of control and our own inabilities. We do not promise, we plan. We have the discipline to stay patient.

For all those that are now planning to change their retirement dates, I must ask, "Why did you expect your retirement to take place at the apex of the markets? Did you not know that the TSX (TSE previously) has gone down hard, over 28%, 5 times between 1955 and the start of this?" A sixth time was certainly possible. The average downturn for the markets during the last 13 bear markets exceeds 25% on average. Thus, when planning your retirement, why was the worst market conditions not planned for, or at least the average condition? We do not know what WILL happen. But we do know you need to have a very healthy respect for what COULD happen and act accordingly.

Risk to the investment community is volatility. The extent and rapidness of the ups and downs defines risk. This is a mathematical concept that basically reminds us that the more something is moving around, the less we understand where it is going to land. The problem is that most clients see risk differently. I never hear clients complain that they made too much return, too fast. Upward volatility is "good" and not a risk. It is down that is bad and to be avoided. Why is this so important? Well, when selecting your retirement day, minimizing the downside risk becomes paramount. Planning on supporting a retirement based on best ever numbers is imprudent at best.

Our retired clients are comfortable. They have the necessary liquidity to weather this storm, even if it drags on for years. They are rich in GICs, cash and bonds. Our soon to be retired clients are also cash rich. The risk of a coming correction kept them from wholly committing to the equity markets. Most will be buyers in the coming months and years. Our clients, who are still more than 5 years from retirement, are excited by the opportunity to get their future retirement funds into the markets at the best time in a generation. Our youngest clients understand to ignore everything and just keep saving and investing regularly. All are sleeping well. Isn't it time that you were?

There is no time like now to polish up or establish that plan. Look for the Efficient Wealth Management ad in the paper and call us.

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Gordon is the Vice President – Financial Planning at Efficient Wealth Management Inc. a leader in cost efficient financial planning. He teaches at George Brown College in their Financial Services and Accounting area. He is also a frequent guest on television and has written numerous articles on investing and financial planning.