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Kim Inglis, BCom, CIM, PFP, FCSI, AIFP

Focusing solely on beating the market is a mug's game in a volatile landscape

Some investors rely on financial advisors only for investment advice. Although choosing the right investments is a key component of financial health, there is a larger picture to consider. The likelihood of emotional and financial well-being increases if investments, advanced wealth management, and financial planning strategies are integrated. The likelihood decreases when the focus is just on "beating the market".

Even institutional money managers don't beat the market consistently. A report by S&P Indices Versus Active (SPIVA) found that in the past five years, only 9.8% of actively managed funds in the Canadian Equity Funds category outperformed the S&P/TSX Composite. In the U.S. Equity Funds category, just 4.55% of funds outperformed the S&P 500 (in Canadian dollar terms) during the same period. And, in the Global Equity Fund category, merely 1.69% of funds beat the benchmark over the five-year timeframe.

Instead of focusing only on outperforming the broad markets, investors should have the various components of their financial picture connected in a holistic approach to wealth management. Research from The Vanguard Group determined that investors benefit when guidance includes professional stewardship, proper portfolio construction, and tax-efficiency.

Vanguard looked to the experience of advisors who would place greater emphasis on factors that don't rely on market outperformance; factors such as asset allocation, rebalancing, tax-efficient investment strategies, and cash flow management. Skilled advisors provide additional value by being the objective anchor that has the discipline to execute planned strategies and keep the client from investing in 'flavors of the month' or heading for the hills when things get rocky.

The value of comprehensive planning was corroborated by the results of a study commissioned by the Financial Planning Standards Council (FPSC). It looked at three groups: those who had received comprehensive, integrated planning; those with limited planning; and those with none.

The FPSC study found that investors with comprehensive planning generally felt better than the "no planning" group with 62% more in emotional well-being, 85% more in financial well-being and 45% more in overall contentment. The results have been consistent in each of the three years this study has been conducted.

In comparing the two groups who did plan (comprehensive and limited), the FPSC study reported that comprehensive planning led in financial well-being with an 18% higher level, a 28% difference in overall contentment and a 17% difference in peace of mind. Further, those with comprehensive plans were 81% more likely to report feeling on track with their financial affairs

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Continued from Page 1

compared to those who did no planning or only limited planning.

This study also concluded that investors with comprehensive financial plans improved their ability to save and were much more certain they could deal with unexpected challenges. And, they were confident that, in the case of their demise, their loved ones would be looked after financially.

As Benjamin Franklin once said: "By failing to prepare, you are preparing to fail." Investors who focus on their entire financial life, not just investments, are a step ahead of the game.

Kim Inglis, CIM, PFP, FCSI, AIFP is an Investment Advisor & Portfolio Manager. The views in this column are solely those of the author. www.kiminglis.ca