The David Miner

Communiqué

Summer 2019

"I have spent most of my time worrying about things that have never happened."

-Mark Twain

We The North!

We welcome that time of year when the sun shines and we commit the cold weather overcoats to the closet. We also welcome the victory by our Toronto Raptors, who were the first non-American team to win an NBA championship, despite the game of basketball having been invented by Canadian, James Naismith, in 1891.

With the backyard weather upon us, Dave and Dorinda have been sticking close to home with only a couple of weekend excursions over the last few months.

Nalina and Maya can't wait for Summertime fun!

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Outside of the office, Kiran and Amelia are keeping busy with Nalina and Maya. Maya is now walking (nay, running!) and Mom and Dad are tired from the endless energy that toddlers possess! They're looking forward to more outdoor playtime with their girls over the summer.

Market & Economic Commentary

While portfolio returns in 2018 were slightly negative, we note that most client portfolios fared better than the Toronto Real Estate market in 2018 (when compared to MLS data). More good news is – client portfolios have generally performed very well in 2019 year-to-date, due to a rebound in major stock markets globally.

Buddies Maya and Bam, having a very serious conversation!

Even the bond market has been positive, up over 6% (FTSE TMX Canada Universe Bond) at mid-June. Central Banks appear to be less aggressive about raising interest rates for at least a little while. (We may even see some short-term reduction in interest rates before interest rates continue to rise again.)

We The North!

The Toronto Raptors have been in the NBA since 1995 and just won the NBA championship for the first time in their history! The Larry O'Brien trophy has left the United States and as the league's only Canadian team, this championship run has been a source of national pride for many of us. It also provides a good investment analogy for those of us in or nearing retirement!

In recent years, the Raptors did phenomenally well during the regular season, but this success had been eroded by underperformance and a lack of resilience in the playoffs. Are there factors that make some teams more successful during the regular season, while others are better suited for the playoffs? It turns out there are, and this year the Raptors appear to have finally figured it out!

Let's break down some of the investment-related mechanics. During the 2018-2019 NBA season, it took at least 41 wins to make the playoffs in the Eastern Conference. In the accumulation of those wins, it didn't matter if your wins came at the beginning, the middle, or at the end of the season. It didn't matter if you had long winning or losing streaks, or if your performance was consistent. You could have started the season with 20 straight losses but if you managed to string together 41 wins by the end of the season you made the playoffs in the East. The point is that during the regular season, winning games early is not better or worse than winning games late. The sequence of your regular season wins and losses is irrelevant!

In the playoffs, this changes completely. To win an NBA Championship, the Raptors had to win four consecutive "best of 7" series for a combined total of 16 wins. Fans will often argue that it's critical to get wins early for momentum and morale, but it really boils down to winning 4 games before your opponent does in each series regardless of the highs and lows in between. Contrary to the regular season, the luxury of riding out losing streaks just isn't there. Coaching, injuries and psychology aside, the playoffs reward teams that are consistent and strong defensively.

Bringing it back to investing, success in the regular season is akin to watching a single investment grow over time. The sequence of years with positive and negative returns does not impact our portfolio's performance, nor do we generally look back on this once we are in retirement just as the arrangement of wins and losses did not matter during the regular season for the Raptors.

Once retired and drawing cash from our investments, the sequence of returns becomes more important. Retirement is the playoffs of our investment careers; the thinking required for success is different and it becomes almost as critical to mitigate losses as it is to win. In retirement, we need both defensive and offensive investment portfolio tactics to go the distance. Defense wins championships, but we cannot win without putting points on the board!

Many thanks to Mackenzie Financial for the creative thinking and some of the content for this article. Of course, savings habits prior to retirement have a significant impact on wealth at retirement. All else being equal, the earlier deposits are added to a portfolio and the larger the amounts deposited, the larger the investment portfolio at retirement will be.

"Retire up to 30% wealthier", eh?

One online broker's advertising campaign questions whether the fees associated with mutual funds and financial advice, are costing investors up to 30% of their retirement savings when compared with the broker's Exchange Traded Funds ("ETF") portfolios. We've cut through the noise to shed some light on their claims.

David and Dorinda enjoy a wonderful meal in April at Langdon Hall with David's brother Bruce and sister-in-law Alicia.

Their campaign isolates cost as the only factor to consider when assessing an investment. While cost is an important consideration, the commercials give no consideration to the added value of active professional investment management -- from both a return and a risk standpoint. Investment planning, tax planning, strategy implementation, monitoring, and much more are also all ignored.

We agree that cost is an important consideration and are always cost conscious when assessing strategies. Nevertheless, cost is only one of the many factors of successful investing.

(con't)

Here are a few thoughts:

1. Assuming passive investing through ETF's will provide the same results as active investment management could be one of the costliest mistakes an investor makes. We have discussed this matter in previous Communiqués and will certainly address it more in future. For the moment, we highlight the example of the Templeton Growth fund. Investment of $10,000 in Templeton Growth Fund on November 29, 1954 would have grown to $60,889 by December 31, 1969 (the date the MSCI All Countries World Index started) and to **$10,884,935** by April 30, 2019 - and that is net results after all management fees and HST are deducted from the fund. Had the investor switched to a passive approach from active on December 31, 1969 and realized the returns of the passive MSCI All Countries World Index since its inception, he would have only **$6,871,746** by April 30, 2019 – a difference of **over $4 million!** To be clear, index performance cannot be perfectly reproduced, and there were periods when the index did outperform the actively managed Templeton Growth Fund; however, this example illustrates the value of active management over time. *Our thanks to Franklin Templeton for the data and the Templeton Growth Mountain Chart included with this Communiqué. Average annual compound growth of Templeton Growth Fund Series A to April 30, 2019 is as follows: 1 yr. -3.06%; 3 yr. 7.86%; 5 yr. 5.21%; 10 yr. 9.37%, since inception 11.47%.*

2. Active managers often had the most value by preserving capital when markets decline. Essentially – risk management is part of the active management process. There is no risk management in an ETF portfolio that is simply trying to emulate an index.

3. ETF's are less tax efficient (for non-registered accounts) than corporate class mutual funds. The management fees on passive management may be lower than active management, but the tax bill is generally higher.

4. Online brokerages have a cookie cutter approach to everyone and simply do not offer advice. This basic fact can be the highest hidden cost to investors. Per Fidelity.ca, the value of sound investment advice is estimated to provide an additional 1.5%- 4% in annual returns.

From a financial perspective, it is important to always look for cost efficiency. Nevertheless, taking the cheapest route is not always the best approach. Would you buy the cheapest car, or even trade your car for a bicycle on the sole basis of saving money? Would you try to close a real estate transaction without a lawyer because it is cheaper? We could save money by doing our own plumbing or electrical work, but for most of us the results could be disastrous.

Would you trust your "money saving do-it-yourself" brake job in a pinch when you hit traffic on the 401? … me neither!