

FINANCIAL POST

'Rule of hard knocks'

Tue Feb 22 2011
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For those who are thinking of, have recently entered or have had limited exposure to the investment markets. In short: you have limited experience and knowledge and want to learn more

When a novice investor joins up with a financial advisor, managing the client's expectations is often one of the advisor's first tasks.

Sometimes, a new investor will arrive at the broker's office fully prepared to earn 50% a year on his or her money, not realizing that big, profitable years do happen but they are not common, and that 50% years don't happen back to back. Such expectations just aren't realistic, says Joel Kruzich of Hampton Securities in Toronto.

"People with less experience in the market tend to be a little too optimistic. You learn the rules of investing essentially by taking hard knocks and losing money. The novice investor can have higher expectations than the market can deliver."

Canada's open and competitive investment community could be fuelling some of those outsized expectations, Mr. Kruzich says. "There is so much competition for clients, with advisors competing to bring in new assets, that some firms and individuals are maybe promising more than they deliver."

But if novice investors aim too high, sometimes they will also aim too low and need to be encouraged to take a greater risk in order to maximize profits, advises Michael Himmelman of Citadel Securities in Halifax.

"There are different personality types that you're going to run across in life. Some people are very conservative by nature. As a result, they may be just a little too conservative, and I could show them how to be slightly more aggressive: Take advantage of an RRSP, for instance. When [RRSPs] first came out, very few people had them. They were a tremendous tax savings vehicle and a way to grow money tax-free. But for that conservative personality, it was very difficult to get them to save their money inside the RRSP vehicle. Once, the dividend tax credit sounded very complicated. Even the sophisticated investor found it very hard to understand. These things sound simple today but they weren't always simple to everyone."

"People know what they want to hear," Mr. Kruzich says. "And the expression is, 'the client is always right.' But the client isn't always right. And sometimes, it's what they don't want to hear that's going to save them money or make them the most money."

But advisors can't shield their clients from all risk, especially when the client is feeling lucky.

"One of the worst things that a novice can do, especially if they have an aggressive personality, is to buy a speculative issue with perhaps more than they can afford to lose -- and instead of losing, they make money," Mr. Himmelman says.

"They turn their \$5,000 into \$10,000 or \$20,000. Then if they repeat the process that's a very dangerous thing, because I can assure you it won't work the third time or the fourth time. And when it's gone, it's all gone. I've seen that happen on many many occasions: Confusing brains with a bull

market; thinking that they might know something that others don't when, actually, they don't. They got lucky."

An investor who is willing to collaborate fully can expect to be challenged by Mr. Himmelman when they're on the brink of a decision with too much risk. "I'll point out the pitfalls. I can give them a deeper understanding of the psychology of the market and who should invest and why they should invest or why they shouldn't invest. And I can help you, guide you, in the complicated world of tax issues and corporate structures and income splitting and I can match the personality with an investment philosophy. Those are the things you can't get on the internet. Applying knowledge and putting the whole picture together is completely different, and that's what I can do."

Expectations run both ways in a successful investment relationship, Mr. Himmelman says. "I'm pretty demanding. I want them to follow their accounts; I'd like them to know a little about the company they're in; I'd like them to work with me. I'd like to get them to a point where if I walk out and get hit by a bus, they can do this themselves. That's my ultimate goal. To make them a better, more knowledgeable investor."

Mr. Kruzich expects his clients to communicate their needs and circumstances. "Pick up the phone," he says. "It is important that you stay in touch. It's very much like a marriage, very much like a relationship with a sibling. Sometimes you should call just to touch base or to check in. And not necessarily discuss what happens to be going on in the account, just to strengthen that relationship on a more personal level. Clients can do that as easily as an advisor. It's a two-way street. Don't expect your advisor to know that you might want to talk at any given time. Feel free to call whenever you think it's appropriate."

Clients who stay in touch are able to give their advisors the information they need to adjust financial positions as circumstances change, Mr. Kruzich says. "Life-changing events happen to our clients all the time. People always think it's not going to happen to me: unexpected death, loss of employment, illnesses. These things happen to people more often than they think. So the portfolio has to be constantly evolving to be suitable and appropriate. Yes, we do talk about their goals and objectives, but people have to understand they might change and could change drastically, depending on certain life events."

After more than 35 years as an investment advisor, Mr. Himmelman's clients have come to expect guidance on a range of issues. "One of the things someone with my experience can offer the novice investor is that I'm well-connected. I know many people who are successful, people who are unsuccessful, many professionals who are good in their fields; so I can quarterback them a bit. For that type of tax problem you should be talking to that person; for more knowledge on local mining you should be talking to that person; someone else will know more about the technical intricacies."

So when the novice investor asks about the core value in their relationship with a broker, Mr. Himmelman simply says: "Some companies make it and some companies don't, and I help you find your way through that."

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