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EXCELLENT PORTFOLIO MANAGERS DIG DEEP & ALWAYS

The portfolio managers my clients and I choose to manage various pieces of their portfolios are continually digging. Digging to find investments they can buy at significant discounts to what they are worth. Just as important though is to continually try to dig up reasons why not to hold an investment.

That last part is where most investment managers fail because it is actually the hardest trigger to pull. Buying an investment is easy. Selling is the difficult thing. Why? Because everyone hates to make a mistake and selling says you made a mistake. Continuing to hold is denying a mistake has been made.

Being right is one of the deep seeded psychological traits we as humans have. When applied to making investment decisions, this can sabotage long term success. Wanting to be right, or more accurately, not wanting to be wrong can make the difference between mediocre investment results to superior ones.

The strongest evidence of this is when investment choices are made following the crowd. It is human nature not to want to look stupid and the natural path to ensure that doesn't happen is to do what everyone else is doing. The most common form of that today is to buy shares of all of the Canadian banks without any real look at which one is the best in the group. Buy them all and you have a greater chance of not being wrong thus, not looking stupid. Using that tactic does satisfy not being wrong but it also drags down your long term returns substantially and underneath, cover up mistakes.

The sibling of not wanting to be wrong is confirmation bias. This is the pervasive, humanly ingrained process of believing something is true and then continually looking for facts to prove your case. It's hard to recognize but we all do it. I'd suggest 99% of us do it 99% of the time.

One of the disciplines this particular Investment Management Partner works under is this; "As soon as we buy an interest in a business, we work to figure out why we should sell it."

With investing, selling an individual holding that you did so much due diligence on before you bought it and then trying to continually find a reason why to sell it is a strong discipline that goes against human nature. It is however a very important risk reducing exercise and through that process, enhances performance of a portfolio. Many portfolio managers don't have this discipline. An even greater percentage of people that try to invest their own money are guilty of this. In time, what you have without a strict sell discipline is a collection of investments.

One of our "Investment Management Partners" sent me an example this summer, of an investment they originally thought would be an excellent long term hold. Shares of this company are held by many of their peers. For this writing, I'll call the company they invested in, XXXX. XXXX is a market leader in their field of business and it's customer list is wide and deep, from individuals to the largest companies on the planet.

In doing their continual work of "finding a reason to sell the investment", this particular Investment Management Partner came across a piece of information in MIT Technology Review. In it, they read a report on what appears to be a significant trend that is developing for larger companies that use technology. If this trend plays out, it will cause significant deterioration in the business of XXXX. Rather than continue to grow larger, which everyone seems to think is a given, their highly profitable business will shrink dramatically.

Instead of acting on this one article this Investment Management Partner followed some of their concerns through various channels. They talked to a wide range of industry experts, read numerous reports on this trend and had a conference call with senior executives of XXXX to find out how they were going to deal with this inevitability.

After following the rabbit trail to the end, they came to the realization that XXXX could be in a weaker competitive position in the next few years". Right after our Investment Management Partner sold their multi million dollar holding of XXXX on behalf of our clients, I got a detailed email on the reasons why they sold.

They did sell their holding of XXXX at a small loss, something many investment managers and individuals alike don't have the fortitude to do. The decision to sell an investment to reduce the risk of a permanent loss of capital is a highly valued discipline. I want this discipline applied to all my client's portfolios and I work to ensure it is.

Owning an investment and blindly holding it forever simply because it has been a good investment in the past or because everyone else owns it is not a good enough reason. Sure, it easier to sell a popular idea to the investing public however it can often be detrimental to the health of portfolio.

Technology or consumer companies that have been dominant in their field and look to be there for a long time most likely won't be. Trends usually start well before everyone else recognizes them and those who invest blindly, without continually looking for a reason to sell will prove folly which is exactly what they had been trying to avoid in the first place.

How To.. "PRESTO!" Not Pay Probate Fees

Although called a "fee", Probate Fees can be considered a tax as well; tax that is paid on the distribution of an estate. Any assets held personally upon death, except those that are passed on to a spouse, are subject to probate fees.

BC has among the highest probate fees in Canada at 1.4% for any estate of $50,000 or more. In Saskatchewan it's only 0.7%. So, using B.C. as an example, if you have an estate worth $500,000 you will pay over $11,000 in probate fees. That applies on all real estate, including your principal residence, bank deposits, RRSP's, TFSA's etc.

There is only 1 pure and really clean, simple way to avoid paying probate fees. That is by holding investments with a life insurance company. The reason for this is that they are considered life insurance "contracts" even though they don't have life insurance attached to them. These can be a "segregated fund" or a guaranteed deposit you have with any life insurance company in Canada. All of these have guarantees of some kind.

Because life insurance company investments and deposits pass "outside of probate", your heirs will receive their money much faster, usually within a week of providing a death certificate to the life insurance company. This can happen because a beneficiary on investment or deposit held directly with a life insurance company is listed directly on them. You can't do that with any of your other assets (home, deposits with your bank, etc).

Putting your existing bank deposits into a guaranteed deposit with a life insurance company is a simple and automatic way that you can avoid probate. The interest paid on the deposit would be the same (or higher) than what you are currently earning on your deposits with the bank however....Presto! Now you won't have to pay those hated probate fees and you have the same kind of guaranteed investment you've always been comfortable with.

Your Pension Plan Benefits Could Be Getting Cut Back

You may have a pension and you have been told it's good, very good. The fact of the matter is, with governments both provincially and federally facing deficits and a shrinking workforce, pensions particularly in the public sector will slowly be cut back and those cut backs have and will continue to be made. Not convinced that this is happening to your pension? All you have to look at is the changes that have been made to the Canada Pension Plan. Do you think that a plan paid by tax payers who have seen their pensions get cut back will be continually willing to fund public sector pension to the same degree they have been in the past?

There have been changes already happening although you might not have really noticed. The biggest is "Cost Of Living" increases. This has been a key and very important benefit in virtually all defined benefit pension plans. The fact

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is, many pension plans have reduced or eliminated this feature. In other words, that $2,000 per month you expect to receive when you retire could be $2,000 / month 20 years from now. In other words, if food, gas etc go up by 50% your pension will not.

Many pension plans have allowed a withdrawal or transfer of the "commuted value" of what your portion of the pension plan is worth. This can very often be in the hundreds of thousands of dollars. This is another feature they are slowly restricting, a feature than can be a helpful tool if you find that your pension isn't paying you the full value of what it should be on a monthly basis and you want to transfer to something that can.

Formulas are being manipulated to reduce future pension payments. I have been made aware of one pension plan that has based their recent earnings calculation on 2007 salaries.

There have been changes in survivor benefits. An associate of mine has found one pension plan that has eliminated the pension being paid to the survivor if the pensioner and the spouse were separated at the time of the pensioner's death.

All of these have the effect of paying less and less to the people who depend on those pension plan benefits. Because of the moving goalposts, it is vital to continually review your pension plans at work with a financial planner and see how they fit with other plans, such as your RRSPs This will ensure you are going to be okay for the long haul.

Gradual Inheritance

It is exactly what the name implies, giving money to your heirs on a gradual basis. A part that is important to that for many people is being in control of how quickly money is paid out to your heirs.

An example—You have $1 million of assets that will pass on to your 2 children. You are okay with the cash going to the financially responsible younger child all at once but the oldest one you want to receive the money over time. This can be done either through a life insurance contract set out in advance or with a clause in your will. Whether done through a Will or directly with a life insurance company, in the end an annuity is set up upon your death, one which has guaranteed payments either for a fixed number of years or for the life of the adult child.

The Insurance You Need Can Be Less Costly Than What You Have

Risk is a 4 letter word. Most of us avoid anything to do with this 4 letter word however, there are some who thrive on living on the edge. Risks, even the small ones, are a fact of life. To minimize the pain of a big risk, a potential catastrophic event, we usually offset it with some form of insurance.

The most common form of insurance is one tied to one's life. The purpose of this "life insurance" is to replace the income of the person who has died. In my opinion, this kind of insurance is mostly needed while a family is raising their kids. If the family unit is made up of 2 primary income earners of ie. $80,000 and that total income of $160,000 is needed to continue the lifestyle that the family has been accustomed to, then life insurance is needed to insure the potential loss of one of the family's income earners should they prematurely.

Normally, I factor in needing 100% of full family income up until the youngest child reaches 22 years of age, the usual age of finishing a 4 year post secondary education program. Quite often when gathering information from a new client I find there are usually a few life insurance policies that have been randomly purchased for random amounts. This often includes life insurance they have through their bank, a policy that is tied to their mortgage.

These can all be replaced with 1 large life insurance policy. It is usually much more cost efficient than a collection of insurance policies. As well, you always get the proper amount of coverage, one that is definitely more reliable should you need to collect on it after a family member has died.

PS. "Mortgage Life Insurance" does not guarantee it will be paid upon death. You can get some of the facts in print here as well as watch a CBC Marketplace report on this kind of insurance. You will find it very eye opening.

Web Gems

Www.bedtimemathproblem.org — An area that the West is falling behind in relative to the rest of the world is in math. You can up your child's fluency in math with a daily email that comes to you. There is a "wee ones" problem for preschoolers and another one for older kids. Bedtime Math Problem claims that the puzzles are enjoyable and can be done in a kid's head and there are no flash cards or anything that would create math anxiety.

Hhhhhmmmmm......

41.9% of investors in a Wall Street Journal online poll said that the biggest mistake they have made in investing is being too cautious. This category was the biggest by a wide margin.

Companies have lots of cash and are buying back their own shares because they see their shares as cheap while at the same time the general public has been selling their holdings because they have lost patience. Bob Swanson, Cambridge Advisors (Boston, MA), Sept 2012

Since 2008, US households have shed nearly $1 trillion in debt. Yes, the US government is taking on increasing amounts of debt however total debt is actually shrinking relative to the size of the economy because individuals are reducing their debts faster than governments are adding to them. Household debt as a share of after-tax income has fallen from 134% to 113%. Dixon Mitchell Investment Counsel, Oct 2012

As company balance sheets have become stronger government's finances have become weaker. More and more money will continue to gravitate to corporate bonds, which pay a higher rate of interest. Morningstar, Bond Manager Roundtable, Sept 2012

A 2011 IFIC, Value of Advice Report showed that households with Financial Advisors have 4.2 times more financial assets than those who don't work with a Financial Advisor. This advice difference persists across all age and income levels.

The Bank of Canada has left interest rates unchanged for the longest time since the mid 50's. Globe & Mail, Sept 2012.

Premiums for family health plans in the US averaged $15,745 / year, with employees paying more than $4,300 of that. USA Today, Sept 2012

The maximum CPP retirement benefit is $11,840 / year. Under the new rules, after 2015, if you choose to take CPP early, your pension payment will be reduced by 0.6% for each month you are under 65. If you wait until after age 65, your monthly CPP income will be increased by 0.7% for each month you are over 65.

The average size of homes being built in Canada began falling after 2006 for the first time since the Second World War. Globe & Mail, Sept 2012

5 million Canadians now cross the U.S. border by land every year to fly out of American airports. Higher airfares and fees and taxes in Canada, as well as differences in wages, aircraft prices and industry productivity makes it 30% cheaper to fly out of the U.S. Globe & Mail, Sept 2012

Methane from food waste traps 23 times as much heat in the atmosphere as the same amount of CO_2. Nearly 80% of the greenhouse gas emissions come from producing and processing food. The U.K. and Japan are the worst offenders of discarding food, 30 - 40% of what they produce. CleanMetrics and CNN World

Since Mormons believe their "president", the head of the Church of Jesus Christ of Latter Day Saints, is God's prophet on earth, will a Mormon president of the U.S.A be bound to obey whatever this man says? USA Today, Sept 2012

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