

In the face of volatile and uncertain markets, savvy investors are shifting to strategies that offer both safe harbour and the flexibility to seize potential opportunities when they rise.

Markets love certainty, the adage goes – and rarely has certainty been so palpably absent from global markets. But in times of crisis, there is always opportunity, and veteran market watchers are positioned to capitalize on behalf of their clients.

Martin Brookes, product specialist at Canadian Wealth Management in Calgary, says, “There are four methods for dealing with volatile markets, starting with the use of structured products or risk control. Many of our client portfolios include absolute return portfolios that use hedged investments, with long and short positions, and which may in fact see higher returns as volatility increases. Highly diversified portfolios mitigate volatility, as does the tried and true strategy of retrenching to more conservative asset classes.”

As difficult as the theory may be to apply, investors who prosper the most are generally those who can take a deep breath and buy stocks when they’re on sale, says Murray Leith, CFA, vice president and director, investment research at Odlum Brown in Vancouver. “‘Volatile’ is industry code for falling asset prices. Stock markets around the world are beaten up and cheap. The near-term economic outlook is cloudy, but that is precisely what makes stocks attractively priced.”

In all markets, discipline results in better returns. “Be a buyer of assets, not a seller,” says Mr. Leith. “Stick to high-



PHOTO: ISTOCKPHOTO.COM

quality companies, with solid business franchises and strong balance sheets, and favour less cyclical stocks (consumer staples, health care, financials) over those that are more cyclical (energy and materials).”

“Clients are looking for advice and reassurance that their advisor understands their specific needs and is focused

on protecting and growing their portfolio. When the market sells off, people generally feel it will go down forever; when it goes up, they tend to feel it will continue to go up forever – and that’s where an advisor can help provide perspective,” says Paul Azeff, investment advisor and first vice president with CIBC

Wood Gundy.

“One of the best performing asset classes recently has been U.S. treasury bonds, and there is logic in that – the treasuries have benefited from both the move to quality and lower inflation/interest rate expectations. For Canadians, there has been an additional benefit from the rising U.S.

dollar. Investors know that when they buy these bonds their worst-case scenario is holding until maturity.

Canadian investors are in an advantageous position to diversify outside of the resource-rich Canadian stock market, says Mr. Leith, taking advantage of the still relatively high Canadian dollar. “Our

market is nearly 50 per cent cyclical resources stock, stocks that will struggle as global growth decelerates. Large capitalization U.S. stocks are likely to lead going forward – businesses that have strong franchises, strong balance sheets, are extremely profitable and well positioned for growth, with significant international exposure.”

One risk management strategy is equally effective in both bear and bull markets, says Mr. Azeff: investing in companies that have a simple, profitable business model. “When I recommend stocks to my clients, we can analyze pullbacks in the market to decide if they are buying opportunities. We keep things simple, and that means that clients are a lot more comfortable.”

In the markets as in life, a wider view provides a more stable perspective. “Virtually every investment firm will tell you that building a highly diversified portfolio is the key to reducing volatility,” says Mr. Brookes. “The problem is that in Canada, ‘highly diversified portfolio’ generally means Canadian and North American equities, and a few Canadian bonds.”

For diversification to be effective, he says, global bonds, global equities, hedge funds, real estate and other key sectors need to be considered. “Yes, market conditions are volatile – but if you have a good investment strategy, you can begin to profit from that volatility, and massively reduce your risk.”

Technology, education, service models

Advisors redefine offerings to meet evolving needs

In the past decade, the role of the financial advisor has evolved to meet the needs of a changing population and a new investment landscape. Now on the cusp of the largest inter-generational wealth transfer of all time, advisors continue to redefine their business models.

Patrick Floreani, CFA, chief investment officer, Canadian Wealth Management (CWM) in Calgary, says, “Advisors often focus on one generation, which can be a mistake. You may end up making investment decisions beneficial to one generation but not necessarily beneficial to their heirs.

“As wealth passes from one generation, the next generation may have no understanding of the tax and investment situation. Our aim is a truly family-driven process,

Advisors are redesigning their business models to meet the challenge of an unprecedented wealth transfer.

and that has to be built on the foundation of a long-term trust relationship.

Over the last decade, says Allan Fenerdjan, first vice president and investment advisor at Richardson Partners Financial Limited in Montreal, the role of the advisor has expanded from transaction fulfilment to investment advice, to a much more holistic approach. “Clients now want to understand how individual recommendations will impact their short-term and long-term objectives, and to be assured that we have a better understanding of their family financial situation.”

Advisors are also expanding their knowledge base through educational programs and designations. There was a time when an advisor was really just a broker, says Charles Coulson, CFA, invest-

ment advisor and first vice president, CIBC Wood Gundy, but over the years, the role has expanded to include all aspects of financial planning.

“We want to deliver the very best advice to our clients, and I knew the Chartered Financial Analyst program designation, a three-year program, would allow

me to be the best possible asset manager. It’s not just the content, process and education – from the clients’ perspective, it also brings a certain level of comfort. They know I’ve been through a rigorous training program and I have the tools and knowledge to provide strong advice.”

While the demands upon advisors have increased exponentially, technology has made it more possible to meet those demands. “As our clients become more comfortable with new technologies, they expect us to at least be at their pace, in both content and medium. We’re no longer the gatekeeper of information, as was once the case, so it is essential we be up to speed on any changes. Our technology service provider, Croesus

See Advisor IIAC3

When it comes to advice, clarity counts

While the role of the advisor is constantly evolving to meet the evolving needs of the client, there are important elements in the client/advisor relationship that remain consistently important, says Tom Hamza, president of the Investor Education Fund (investored.ca).

“The advisor’s job is to bring clarity to even complex issues. Investors owe it to themselves to keep asking the simple, seemingly dumb questions until they feel comfortable.”

Further, says Mr. Hamza, it is essential to track total annual portfolio returns relative to the markets. “It is amazing how many investors don’t know how their investments have fared over one, three and five years.”

IIAC2

INSIDE

Top advisors Geoff MacPherson and Rupert Hamilton offer timely guidance.

IIAC3

Ian C.W. Russell, President and CEO, Investment Industry Association of Canada, presents an expert view of the evolving world of wealth management services.

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Sound advice

Top advisors advocate discipline and a long-term approach

More and more Canadians are being forced to build and manage their own retirement savings plans due to fewer defined benefit pension plans, says Geoff MacPherson, a financial advisor with Edward Jones in Newmarket, Ontario. "Low returns on guaranteed invest-

ments such as GICs are making it difficult to save enough money for retirement, and we've rarely seen equity markets as volatile."

In the face of these forces, he says, a disciplined approach to investing is essential. "We feel that the best strategy for the majority of

Canadians is to take a long-term view with their investments; invest in quality within a well-diversified portfolio, and hold over the long term."

In order to support clients in these aims, Mr. MacPherson and his colleagues focus on increased communication and education. "Our firm con-

stantly reinvests in tools that enable us to continue to assist our clients with investment education and financial planning."

There is a broad awareness, on the part of investors, of the many new investment vehicles on the market, he says, but not necessarily a

broader understanding, which makes the role of the advisor even more vital. "There has also been downward pressure on fees, and we think that will continue."

In general, says Mr. MacPherson, clients are looking for advisors who are knowledgeable, resourceful,



Geoff MacPherson, a financial advisor with Edward Jones, advocates a diversified portfolio and a long-term approach.

transparent, caring, honest, ethical – and who have strong communication skills and a client service-oriented practice. "The most important choice facing individual investors today is not the investment products they're selecting, but identifying, understanding and sticking with a proven investing discipline that is suitable for their personality."

A disciplined approach

Rupert Hamilton, an investment advisor with TD Waterhouse Private Investment Advice in Toronto, came to Canada in 1994 after completing a master's degree in international business at University College Dublin's Smurfit School of Business. Since then, in addition to his distinguished career in financial services, he has served as president of Special Olympics Ontario, a board member of the Sports Celebrities Festival and the Ireland Canada University Foundation, and is an active supporter of Toronto's Make-A-Wish Foundation.

The challenges facing Canadian investors, says Mr. Hamilton, must be met with a disciplined approach to investing and financial planning. "The low interest rate environment has many people searching for higher yields. It is incumbent upon investment advisors to ensure our clients understand that higher yields are accompanied by higher



Rupert Hamilton, an investment advisor with TD Waterhouse Private Investment Advice, says communication between client and advisor is essential.

risk. We've just got to look at the whole asset-backed commercial paper event to understand that no one gives away higher yields – there's always a reason for it."

As technology has increased the amount of information available to investors and advisors, and the variety of investment products has increased exponentially, communication between advisor and client has become even more important, says Mr. Hamilton. "What hasn't changed is the fact that every investment strategy should be aligned with the client's objectives. From an advisor's perspective, that's our obligation to our clients."

The transition of wealth that will take place over next decade challenges advisors to understand the lifestyle goals of their clients as well as their investment objectives and risk tolerances. "Our role is to help them plan and meet those goals. It goes beyond just investing."

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Clients demand a full menu of sophisticated services

By Ian C.W. Russell
President and CEO, Investment
Industry Association of Canada



“There is no substitute for close communication with the client and knowing the client’s hopes and dreams – especially when that strength is bolstered by sophisticated technologies...”

The wealth management business has seen several years of rapid growth, a trend that should accelerate as baby boomers make the transition into retirement and shift from a focus on savings and investment products to greater emphasis on sophisticated services such as retirement and estate planning. What will firms have to do to ensure their competitive position in this growing industry?

Today’s wealth management clients demand a comprehensive menu of advanced services that address the widest possible spectrum of financial planning needs, from portfolio construction and management to business succession planning and capital raising. Providing this kind of all-embracing, integrated service requires versatile advisors with a wide range of knowledge, and specialists who can address unique needs. Based on these strengths, large, integrated, national firms that have leveraged the advantages of economies of scale, a wide range of products and services, and excellent training programs will probably continue to maintain a leading position.

But there will also be an important role for smaller niche players. With their close relationship with clients, they are well positioned to provide specialized services. In a business that has become increasingly complex because of more sophisticated products – such as managed products and discretionary managed accounts – recent technological advances have enabled small firms to offset their traditional disadvantages in economies of scale and access to products, utilizing sophisticated technology to provide seamless service while relying on carrying brokers to provide the necessary settlement technology.

In addition to the capacity to access technology and the ability to deliver first-rate products in a cost-effective way, successful firms have to make it a priority to communicate with their clients, offering services through a variety

A longer-term perspective on global equity markets presents a different picture than today’s headlines

	Week	Month	YTD	As of September 17, 2008		
				1 Year	3 Year	5 Year
AEX, Amsterdam	-9.37	-12.9	-30.8	-32.8	-10.3	6.6
All Ordinaries, Sydney	-3.86	-5.3	-25.7	-23.2	6	48
BEL 20, Belgium	-8.72	-9.5	-32.4	-34.8	-14.9	32.2
Bovespa, Brazil	-4.86	-12.9	-26.1	-16.7	58.4	180.2
CAC - 40, Paris	-6.62	-10.2	-28.7	-27.9	-11.3	18.6
NASDAQ Composite	-5.83	-14.4	-20.9	-20.8	-2.8	10.1
KFX, Denmark	-5.53	-11.8	-20.3	-23.5	-2.1	47.7
Dow Jones Germany	-5.57	-9.4	-29.7	-25.5	8.8	47
Dow Jones Industrials	-5.85	-9	-20	-22.8	-0.3	10
Dow Jones United Kingdom	-8.38	-9.9	-23.7	-22.1	-8.3	17.4
HEX, Finland	-5	-15.3	-37.6	-37.9	-6.1	23.9
Hang Seng, Hong Kong	-11.81	-16.7	-36.6	-28.2	17.7	60.8
IBEX 35, Spain	-4.65	-8.8	-29.8	-24.1	1.2	50.1
MIB TEL, Milan	-6.94	-9.5	-32	-34.5	-24.7	3.2
Bolsa, Mexico	-8.45	-14.2	-20.6	-23.4	52	197.2
Nikkei, Tokyo	-4.83	-9.8	-23.2	-25.6	-9.3	7.4
STI, Singapore	-7.75	-13.5	-30.5	-30.4	4.9	52.2
SMI, Switzerland	-6.56	-8	-21.6	-24.2	-2.3	23.5
S&P 500 Index	-6.14	-10.9	-21.2	-23.9	-6.6	11.6
S&P/TSX Composite	-4.96	-9.3	-14.1	-15.2	8.1	56.2

Source: Globeinvestor.com

of channels and providing clients the ability to access their accounts on a regular basis. There is no substitute for close communication with the client and knowing the client’s hopes and dreams – especially when that strength is bolstered by sophisticated technologies that allow boutique firms to capture some of the same advantages as larger players. In addition to a wide range of differentiated products, firms also need the market research that will give them crucial insight into the needs of clients and potential clients.

Moreover, success in the wealth management field will depend on people – training and retaining the financial advisors who provide the key contact point between the client and the firm. Successful firms will offer clients the next generation of financial advisors – advisors who are not only knowledgeable about the markets but able to instil trust and confidence. They must be capable of providing expert advice in all

areas of wealth management. Skills like listening and interpreting client needs will grow in importance in the advisor-client relationship.

Given the importance of advisors understanding clients, and clients trusting advisors, people skills – an important potential advantage for any small firm – will be a major part of the wealth management business. The most successful firms will be those that are best at recruiting and training the people who can

understand their clients, and at accessing the technologies that will help meet their needs. An integrated and comprehensive approach to wealth management requires that advisors have the required information at their fingertips, through fully integrated systems that capture information about markets, products and the client in a single source.

The wealth management industry has grown enormously in the past few decades,

especially the past few years. How well firms – large or small – are able to take advantage of future growth potential depends on how well they know their clients, how well they communicate with them, the top-rank products and services they can offer, the qualifications and training of their advisors, and how effectively they take advantage of technology’s potential to provide customized, targeted services to the growing market that will settle for nothing less. ■



The most successful firms will be those that recruit and train people who can understand their clients, and access technologies that will help meet their needs, says Investment Industry Association of Canada president and CEO Ian Russell. PHOTO: ISTOCKPHOTO.COM

From IIAC 1

Advisor services evolving

Finansoft, makes it easier for us to quickly determine which clients are going to be impacted by any changes. It gives us the ability to manage and process a greater flow of information,” says Mr. Fenerdjian.

Another emerging advisor trend is a collaborative approach to meeting client needs.

“We built a team (The Ansky/Coulson Group of CIBC Wood Gundy) that is able to offer the full range of financial planning services,” says Mr. Coulson. “One individual doesn’t have the capability to specialize in every aspect of financial planning. Our team includes a number of specialists, including a financial planner who interviews our clients to gather all necessary information and

Technology and teamwork help advisors respond to growing client needs.

design a financial plan that is transgenerational. We then make investment recommendations based on the plan that the planner and client wrote together. We have found our team’s approach results in a much higher level of client confidence and satisfaction.”

“At CWM, we are in the trust business,” says Mr. Floreni. “We must fully understand the aspirations of our clients in order to serve as personal chief financial officer and trusted advisor. To gain that trust, we’ve developed an open architecture business model, which means that if we have to go to a competitor firm to find the best solution for our client, that’s what we’ll do. Our goal is to find the best solutions, not to sell products.” ■



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