Especially in today's volatile markets, investing in mutual funds reduces risk

As do-it-yourself investors like to say, nobody cares more about your money than you do. With enough time, diligence and discipline, most people are capable of learning what they need to know to invest successfully.

But in the real world, the demands of investing prove too daunting for the vast majority of Canadians, says Anthony Williams, CFP, director of Academic Affairs, the Canadian Institute of Financial Planners, particularly in times of volatility.

An alternative to the do-it-yourself route is professional money management, affordably accessible through mutual funds. "By definition, mutual funds are investment vehicles designed to mitigate risk," he says. "Investing in mutual funds transfers the challenges relating to time, knowledge, inclination and a large capital outlay from the individual investor to the mutual fund company."

Contrast the daily grind of the average time-strapped Canadian, juggling the demands of career and family, to that of money managers: "Fund managers are professionals who spend their entire working day focused on analyzing companies and investment opportunities," says Rick Headrick, president of Sun Life Global Investments (Canada) Inc. "While there is a tremendous amount of research online, do you really have time to filter through all the information available and gauge whether it is accurate and dependable?"

Just as importantly, fund managers don't rely solely on publicly available information, but on deeper analysis. "They're meeting face-to-face with the decision-makers of those companies to assess whether they are worthy of your investment," says Mr. Headrick.

"That is very difficult for an individual to do, especially when investing globally. Very few investors can go to Asia and sit across the desk from a company CEO – professional money managers have the resources to do that."

Effective diversification is universally accepted as the single most effective way to reduce risk in a portfolio, and is particularly challenging for individual investors, says Mr. Williams. "Most individuals do not have an unlimited supply of money, so all too often, an individual with a self-managed portfolio will end up allocating too large a percentage of his or her savings to a single stock, bond or sector. It's a chronic problem with self-managed portfolios, and it magnifies risk."

In contrast, the money pooled in a mutual fund often runs into the billions, allowing the fund manager to invest in a variety of securities in different economic sectors and geographical regions, depending on the mandate of the fund. As a result, he says, "the impact of losses from any one security or even an entire sector is minimized by positive returns from other securities in the fund."

As Canada's market represents only about four per cent of the global market capitalization and is largely concentrated in just three sectors – financials, materials and energy – it is essential to look beyond our borders for true diversification, says Mr. Headrick. "We're very fortunate that the Canadian market has done relatively well over the last several years, but we also know that things change over time.

"If all of your eggs are in that basket, you could end up being very unhappy. Canadian investors should consider looking to investments outside of Canada for additional diversification."

As with all investments products, successful investment in mutual funds starts with a holistic financial plan. In the debate about mutual fund fees, the fact that those fees include financial advice is often overlooked.

That advice and planning can further reduce risk and maximize returns by ensuring that the risk profile and time horizon of the fund portfolio are aligned with those of the investor over time.

"Canadians continue to report they are looking for advice and help to get to where they want to go. A financial advisor can help you with a financial plan that brings together retirement, estate, tax and education planning as the foundation of your investment strategy," says Mr. Headrick.

essential info

The importance of advisor qualifications

By Frank Swedlove, president, Canadian Life and Health Insurance Association

To ensure you are dealing with a qualified advisor, ask if the advisor is licensed with the appropriate regulatory bodies. In addition, inquire about any designations he or she may hold. There are a number of relevant designations, but the ones you are most likely to encounter are CLU and CFP. A Chartered Life Underwriter (CLU) designation includes specialized training in areas specific to life and health insurance needs, like income replacement, estate planning, risk management and wealth transfer. A Certified Financial Planner (CFP) designation includes broad-based training on building personal financial plans.

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online? Visit **clhia.ca** for more information from Canada's Life and Health Insurance Association. For more investing information, visit **Sunlifeglobalinvestments.com.**

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