Assante Capital Management Ltd.
4211 Yonge Street
Suite #222
Toronto, ON M2P 2A9

Phone: (416) 216-6532
Email: choran@assante.com
Website: www.chrishoran.ca

Page 6

Book Review:

**Jordan Peterson
12 Rules for Life**

Chris provides financial planning, investment planning and full implementation services to about 100 families.

We are pleased to welcome new clients. New clients should have $1 million or more of investable assets.

The TV Ads

Everyone has seen the ads on TV claiming the investment advisor's fee should be done away with and investors should pursue their quest for investment success with a questionnaire and a 'few ideas to get you started'.

Part of me understands the ads don't warrant a response. But I am also well aware that it's a competitive world out there, and clients cannot be inoculated too often on both the value of (good) advice and the ever-looming volatility of investment markets. The two are linked.

And I'm also Irish enough that I can't resist returning a shot.

The proposition is certainly true: of course you can save half the cost of your new kitchen or anything by doing it yourself. Cut a few straight lines, screw together some plywood boxes, and away you go. But all ads for Do-It-Yourself (DIY) investing deserve a shot back, because they miss the point entirely about how investment success is found, and what good advice is.

The idea that you just check a few boxes on a questionnaire about your preferences for dangerous things like the volatility of a million dollars with such undefined terms as 'high' 'medium' or 'low' and an algorithm spits out 'a few ideas to get you started' is no less ridiculous than claiming anyone can fly an airliner. (what exactly does 'medium' mean, anyway?) Equally pernicious is the suggestion that you will have 'up to 30% more' if you cut out the advisor fee and part of the money manager's fee.

Of course there are a dozen apps that can ask you a few questions and spit out an asset mix recommendation for free. And of course you would have 30% more if you reduced costs by 1.25% and all else stayed the same for 25 years. Just one small problem: that's not the way investing works.

Like all the conspiracy theories about the JFK assassination, their arguments depend on the omission of at least one important detail. And when that detail is included, the case for conspiracy falls apart.[1]

One error is to think that the asset mix spit out by an app is as good as another. They aren't. In my experience the apps and questionnaires are all designed by consultants and lawyers using retrospective data. They look backwards, not forward.

Looking backward from today you see the best 30-year run for bonds ever in the history of mankind, and one of the 3 worst 13-year runs from stocks in the last 90 years. They think the future will be like the past. So they have far too much in bonds. It's a huge mistake, because 25-year-olds are needlessly saddled with bonds fated to earn less than half what equities will earn over their 60-year horizon.

Another even worse error is to think that investment success is a matter of a nice low-fee portfolio. Consultants and other academic types fall for this error big-time, because they have no real-world experience actually dealing with investors and markets. They think you take a recommended portfolio today, with an expected average return and standard deviation of such and such, and all you do is multiply that out for 30 years to millions of dollars. And it's a fatal error.

The thing that people do not see (until it is too late) is that investing is most definitely not a point in time thing multiplied out into the future 30 times. Successful investing is a journey, a voyage, a lifetime of a world with things so scary we can't imagine them today, our perceptions distorted by irresistible and significant errors like a mirage on a desert highway driving powerful emotions, as well as by innumerable factoids from people who may or may not be your friend.

The data, as we will see, clearly show that most people, left to their own devices, most of the time, make errors that cost them in aggregate at least 2% a year – but it's actually worse. Big Mistakes inflict losses of 10% - 50% of an individual's entire portfolio.

So this is as good a time as any to re-state my beliefs about investing, and my value proposition. I will demonstrate the truth that my 1% fee is a bargain if I save you from just one Big Mistake.

My beliefs

I earn the trust of my clients and their families over many years of honest and knowledgeable advice, and have demonstrated some modestly successful results along the way. The trust sits solidly on the foundation of my beliefs, noted briefly below.

One: The vehicle for investment success is the financial plan. The plan, represented by the 'Snapshot' we review at every meeting, provides the structure to address the client's goals and concerns: retirement income, children's education, taxes, estate planning, and philanthropy. The plan is derived and evolves not from a questionnare, but from detailed personal information accumulated over years of honest conversation. From this I am privy to more of the client's most deeply personal thoughts and information, often even more than the spouse.

This is the level of information required for lifetime decisions. A questionnaire and 'high' 'medium' 'low' are a pathetic joke.

Two: The long-run goal of financial planning is the growth or preservation of the purchasing power of the client's financial resources. Purchasing power, not currency, is the only meaningful measurement of financial resources over the decades that necessarily are the time horizon for lifetime, even intergenerational, financial goals.

Purchasing power over decades is incessantly eroded by inflation. Inflation of only 3% reduces purchasing power of currency by half in 24 years, which is the median life expectancy of a newly-retired 65-year-old couple. It's a seriously daunting challenge, even for me, and anyone who thinks that a questionnaire with 'high' 'medium' or 'low' is a solution has no idea what they are doing.

Three: History shows that shares of companies have generated average returns of 10% per year since WWII; small company stocks in the US have generated 12%; high quality corporate bonds in the US have generated returns of about 5%, while inflation has averaged about 3%. In terms of purchasing power after inflation, the real return from equities is about 7%/yr, or more than triple that of corporate bonds at about 2%[2].

And today the prospects for bonds are mathematically worse than the long-term averages.

Bond prices are so high today that the interest yield on many bonds is actually <u>negative</u>. It's an Alice in Wonderland situation akin to the tech bubble of 1999.

Four: Those returns come at, and are indeed the result of, a terrible cost. Equity prices over short periods are volatile. Over the 75-odd years from 1945, the average intra-year decline (peak to trough within a year) is a little over 14%. Declines of 15 – 20% occur every 1 -3 years, and bear markets – declines of over 20% and as much as 57% (2008-9) occur on average every 7 years or so. Sometimes markets recover quickly, as in 08-09, sometimes not: there have been three periods since 1926 where equity prices as a whole have not advanced at all for more than 12 years.

Yet equity prices in the US are 70 <u>times</u> higher today than in 1945. Dividends paid by those companies are about 40 <u>times</u> higher, while consumer prices are only 13 times higher. Thus we can firmly conclude: the volatility is temporary, while the advances are permanent.

Five: This temporary volatility of markets cannot be timed. Markets are not cyclical, although there are cyclical elements in their behaviour. Neither are markets random, although there are random aspects to their behaviour.[3]

Six: This volatility always results in investors tending to sell in disappointment or fear after a significant decline, and then buy in again when confidence returns after prices have gone up. This proclivity to self-destructive behavior is hard-wired into the human brain[4]. It is the reason that investors' returns ('dollar-weighted') are less even than the investments they hold ('time-weighted') by as little as 2% and as much as 14% per year – for years[5].

This investor underperformance is an extremely robust number, endlessly documented by highly reputable firms over many time periods. I see it all the time, documented on the statements of the hapless souls who come to see me. It is the shocking cost of poorly timed and otherwise inappropriate investor behaviour.

People fail to reach their investment goals because they blow away six-figure chunks (or more) of their portfolio with Big Mistakes. These errors are made just as easily with low-fee index ETFs. Trading is the problem for most people, definitely not part of the solution. (See 'Psychology of The Big Mistake' www.chrishoran.ca.)

This self-destruction is the plane crash of do-it-yourself investors, and pretending it doesn't exist is the lie told by the do-it-yourself firms.

Seven: The most important factor in controlling volatility and generating long term returns is the asset mix of the overall portfolio. The 'performance' within the individual segments is not very important over time, because the difference between the top and bottom within an asset class is less than the difference between asset classes over the various economic phases that a lifetime investor passes through. So it is far more important to get the mix even partly right than top performance within the segments.

Eight: I make no claim that any segment of your portfolio will 'outperform' some fund, index, or other thing at any point or over any block of time. Nor do I make any claim that your portfolio as a whole will 'outperform' some other collection of investments at any point or over some block of time. 'Outperformance' is not a goal. Of mine, anyway; if it's a goal of yours, I'm sorry but you'll have to find someone who claims to 'outperform'.

In fact the opposite is true: your portfolio, or some investment within your mix, will <u>always</u> be underperforming something.

I am quite positive, based on 30 years of observation, that at any point in time someone will be able to point to some fund, index, or other thing that has done measurably 'better' than whatever you are holding. This is normal in a chaotic and complex world and should not bother anybody. But it does. There is always greener grass. (Greener grass is the mainstay of both financial journalism and also the '2nd opinion' marketing campaigns, but I digress.) And chasing greener grass is the kiss of death in investing.

Nine: I do claim, that having not made the behavioral 'Big Mistakes' made by so many of your friends and neighbors, your actual real-world returns, actually realized over decades, will be substantially higher than your friends and neighbors, or what you would have otherwise done.

Ten: Investment success is therefore much more about investor behaviour than about investment performance.

The most important factor in managing investor behaviour is a good advisor. I think of myself as an 'emotional counterweight' to the client's natural - emotional - inclinations.

The most important value that I provide by far is the patience and courage that are required at these various acute times for an investor to successfully manage the emotions of these ups and downs. The more money is involved, the more powerful are the emotions and the more valuable is the advice.

My task is like an airline captain. Most of the time it looks so easy an app could do it for free. But once in a while, maybe only once in your entire investing life, I manage to save you from making a move that would have cost you half your capital. Or your relationship with your children. Or some other plane crash of a mistake. At that moment, I have earned my lifetime fee, all at once.

Everything else: the financial planning, tax planning, estate discussions, portfolio design, endless administration and accounting, performance monitoring: all that is free.

My fee is 1% of the assets under management. I believe the benefits of my advice will be multiples of the fee. If someone does not see this, then they should not be using my services. And I will happily wish them best of luck.

Parting shots

According to the website for one of these TV ads, the fee for a typical portfolio is 0.62%; this is essentially money management only, as there is no communication that could conceivably pass for advice other than an online chat or email, in any case certainly insufficient to provide an iota of advice, never mind the effort to talk anyone out of those nasty untimely trades that cost people on average 2 – 14% per year.

This compares to a client of mine with a $2 million portfolio who will pay about 0.80% for money management. The difference of 0.2% (between 0.6 and 0.8) isn't nothing but it isn't much – we'll return to this and I'll crush it into the ground again with my boot heel in just a second.

The ads further claim a 5-year return on an 'Aggressive' portfolio of 6.3% per year. (what on earth does 'Aggressive' mean, a portfolio for testosterone-poisoned Neanderthals?) This return, as is duly noted, comprises one year of actual return and 4 years of hypothetical return, which is the same as saying, 'what we now say we would have done, knowing what we now know'.

(To say this another way, any moron can show a decent hypothetical return. You just pick things that went up already. Unbelievable.)

Anyway, I just reviewed a Chris Horan client report, for a real flesh and blood client couple, with over $4 million actually invested with me. The 5-year return on their heavily equity-oriented portfolio to March 2019 is 7.3% (net of course of those nasty and useless Advisor fees). And I happened to see my own portfolio report, for the same period, with the identical return.

	5 Year Returns
TV Ad 'Aggressive' Portfolio*	6.3%/yr
Horan client/Horan **	7.3%/yr

* 5 years to March 2019; TV Ad return from Questrade website
** Horan/client returns from CI Private Client Performance Reports (March 2019)

I'm happy to see that my and my client's portfolios handily blew away the DIY Competitor's return over 5 full years. Seems I paid for my fee and a full point more besides.

These observations of course may have no particular statistical merit, and prove absolutely nothing. But a full percentage point per year over 5 years and millions of actual dollars net of fees is not a very good showing for the DIY types.

Low fees may not be the magic that some people suggest they are.

And I know for sure that TV ads can't show you even one multi-million-dollar portfolio with actual real-life 5-year returns. Because it didn't exist 5 short years ago. Never mind the almost 30 years of actual hard-won returns for some of my clients.

Endnotes

1 Vincent Bugliosi, 'Reclaiming History'
2 The difference is greater than this because returns are geometric. Data from Ibbottson.
3 Markets exhibit 'positive serial correlation' which means that the probability of a rise or fall is correlated to the period immediately preceding it, so a trend tends to continue … until it changes direction.
4 It is also much more interesting than it sounds. For a brief glimpse, please see 'Psychology of the Big Mistake' www.chrishoran.ca
5 Dollar-weighted returns are almost always lower than the time-weighted returns because money flows into an investment after it has gone up and flows out after it has gone down, so more dollars are going down than up. See studies by Dalbar, Morningstar, Vanguard. Also see 'Rate of Return', Chris Horan, May 2015, www.chrishoran.ca

Book Review

Jordan Peterson, 12 Rules for Life

Jordan Peterson is Canadian, a PhD Clinical Psychologist, lecturer at Harvard for 10 years, now Professor of Psychology at U of T.

12 Rules for Life is an excellent book. Peterson weaves the great lessons for humanity from the ancient religious texts, history, and modern psychology to illustrate important truths. The chapter on good and evil is worth the price of the book.

In another chapter he uses historical events and texts such as the execution of Socrates and the Columbine murders to discuss how envy, then resentment have their source in our failure to deal with our own shortcomings, and ultimately lead to the desire for vengeance and destruction. He calls this the 'Underworld Trinity' of deceit, resentment, and arrogance.

Peterson blipped onto my radar screen with the Lindsay Shepherd incident at Wilfrid Laurier. Shepherd, a Masters candidate and TA, showed her undergrad class a video of Peterson debating his view on why people with gender issues should not require society to use special or particular pronouns. Shepherd was hauled in front of a University tribunal and excoriated for daring to give Peterson such an audience. The Global News video recording is appalling. The University brass' script is straight out of Orwell's Ministry of Truth: the voice calmly suggests, against Shepherd's quaking protests, that her topic supports Hitler White Supremacy, and threatens to have Sheppard's career terminated. https://globalnews.ca/video/3867811/extended-excerpts-from-secretly-recorded-meeting-between-wilfrid-laurier-university-grad-student-and-faculty