9 Secrets of Successful Wealth Management

FREE REPORT

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What is wealth management?

Wealth management encompasses a range of services provided by advisors for their clients.

But at its core, it’s where a wealth manager helps a client build an investment portfolio to protect and expand their capital and to prepare for their current and future financial needs.

The investment aspect of wealth management typically entails both asset allocation of a whole portfolio—choosing between stocks and bonds, diversifying across industry sectors and different countries and so on—as well as the selection of individual stock investments. The planning function of wealth management generally involves tax planning around the investment portfolio as well as estate planning.

In Canada, an investment counselor or portfolio manager is a person or firm registered with a provincial securities commission to manage money for investors, or give them advice that is tailored to their individual needs. Most investment counselors and portfolio managers charge for their advice, or investment management, with a fee based on assets.

Some investment counselors and portfolio managers charge an extra performance fee when their client accounts achieve results above some pre-determined level. I disapprove of this arrangement, although apparently some investors are willing to accept it.

An “investment advisor,” on the other hand, is a salesperson employed by an investment dealer, brokerage firm or mutual fund dealer. Investment advisors are registered with securities commissions to sell securities to the public. They generally work on commission. Commissions on newly created structured products are higher than they are on investments that are already publicly traded.

At this point, we should explain that the owner of TSI Network—The Successful Investor Inc.—is affiliated by common ownership with Successful Investor Wealth Management, a fee-only investment counsel/portfolio manager (not a broker).

Successful Investor Wealth Management Inc. manages more than $1 billion for individuals and families; its clientele is mostly made up of long-time readers of ours, and of people they have referred to us. The Successful Investor Inc. publishes four investor newsletters. The two companies are affiliated by common ownership—we own both, but we keep them separate for regulatory purposes. This makes us a competitor of sorts with brokers, especially those that offer portfolio management.

We begin with a look at our investment philosophy, which hinges on investment quality, and forms the basis of our rigorous approach to stock selection. Then we will look at the specific criteria we apply to stocks.

It pays to make fewer but better stock picks

Over the course of the average month or year, we look at a great many stocks for our newsletters and our portfolio management clients.

Of all the stocks we look at, we add only a tiny minority to those stocks we might think about recommending. There are several very good reasons why we are so particular with our stock choices.

It's easy to sell stock but much harder to build a business

First, stocks that are attractive enough for us to want to recommend them as buys are always a small minority. After all, it's relatively easy to set up a company and sell stock in it to the public.

All it takes is some capital, legal fees, input by stock-promotion consultants and cooperation from a handful of brokers.

Promoters can launch a new company while it's still living off that initial capital. (They can then add to the capital by selling stock in the company to the public.) Meanwhile, they can maintain investor interest with a string of press releases and other public-relations efforts.

Start-ups and new issues are always highly risky. But even long-established companies can fail to thrive for years, while maintaining a seemingly healthy glow. As their business gradually loses momentum, they expose you to an ever-growing risk of loss.

In contrast, it's much harder to set up and manage a business, and make it thrive over long periods. That's why only a small minority of stocks are ever really suitable for serious, long-term investment.

Why some promising stocks don't make the cut

In the initial phase of our research, we eliminate high-risk stocks and those with limited prospects for profit. This still leaves us with many stocks to choose from, however. We have to watch out for well-established stocks that look attractive on the surface, but lack the investment quality profit potential that we seek.

Even if a stock looks like it might thrive, we may still refrain from recommending it for a number of reasons. Our research may lead us to conclude that it presents too much risk of heavy loss if it fails to thrive. Or we may feel that stocks we already recommend offer better alternatives.

Or we may simply prefer to hold off on a promising stock because we feel it has limited near-term potential. This can happen because it has been overhyped in the broker/public relations limelight, for instance. Stocks that fall into this limelight can attract exaggerated expectations—which means any downturns can be swift and brutal.

In many cases, we watch the progress of these stocks-we-like-a-little. We may recommend buying them months or even years later, but only after seeing favourable developments and signs of progress.

This painstaking approach is a lot of work, but it pays off. It has led us to recommend many stocks that subsequently surged in price. For that matter, our recommendations include a remarkable number of stocks that have taken over at high prices that gave our readers huge profits. In addition, this approach cuts risk. It is the best way to stay out of a lot of duds, not to mention total losers.

Here's how we apply our investment philosophy to wealth management

There are a wide range of strategies and philosophies used by wealth managers. We'll look at some of the ones we feel should be avoided, beginning on page 18.

But for now, here's our approach:

We think investors should hold stocks rather than bonds. We advise against investing in bonds, mainly because today's low interest rates make bonds unattractive, and rising rates would push down their future value.

When we build an investment portfolio of stocks for a client, we start with our three-part Successful Investor approach: Invest mainly in well-established, profitable, dividend-paying stocks; spread your portfolio out across most if not all of the five main economic sectors; downplay or avoid stocks in the broker/media limelight. This, however, is just the start of our Successful Investor investment methodology.

After that, we pick stocks to go in the portfolio, using tools and measures from five key areas:

1) The investment-quality markers we use to award our TSINetwork investment-quality ratings;

2) Valuation factors, including the P/E and other financial ratios;

3) Extra value factors—hidden value and other key or overlooked pluses—that help create outsized returns;

4) Reasons for wariness. These are potential trouble spots that could hinder long-term performance or lead to significant long-term risk. We take these factors into account, but we sometimes accept one or more of them in a stock that has hidden value or other merits to offset the negatives;

5) How to make room in a portfolio for new buys.

1) How we judge investment quality

The essence of investment quality is a company's ability to survive a business setback and go on to still greater success when conditions improve. We created our TSINetwork Rating System to give you an idea of the investment quality and risk in stocks we analyze and recommend.

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Using the system, we assign “quality points” based on nine key factors that successful investors recognize as signs of lasting investment quality. These factors are:

One point for a long-term record of profit.

One point for a long-term record of dividends.

One point for industry prominence—two points for industry dominance.

One point for an attractive balance sheet, with adequate equity and manageable debt.

One point for Canada-wide operations, or two points for multinational operations.

One point for being able to serve all shareholders. To deserve this point, firms must be free of excessive regulation, free of too much dependence on a single supplier, and free of the adverse influence of a parent company or abusive insiders.

One point for freedom from business cycles.

One point for being able to profit from a secular trend, such as technology-driven productivity gains, or sales gains due to the spread of free trade; two points for being able to profit from two such trends.

One point for offering products or services that profit from habitual behaviour.

Three of the nine factors can generate one or two points, so companies can earn a maximum of 12 points. Those with 11 or 12 points fall into the top category: Highest Quality. Those with eight to 10 points are of Above Average quality. Six or seven points means they are of Average quality; four or five points, Extra Risk; two to three points, Speculative; one or no points, Start-up.

Unlike computerized risk assessments, our TSINetwork Ratings demand many judgment calls from our analysts. But for that effort, we get a measure that goes to the heart of a company’s staying power, and yields few unfortunate surprises.

2) Valuation factors help you find the happy medium

Many investment-valuation tools provide a reading on a scale or spectrum, between two extremes. The most appealing stocks are usually in the middle of the scale. Risk is highest at the two extreme ends of the scale.

Consider the P/E ratio—the ratio of a stock’s price to its per-share earnings. Many investors instinctively understand that a high P/E can be a danger sign, because it suggests a stock may be over-priced. But you also need to be wary of stocks with low P/Es.

A low P/E ratio appeals to a lot of investors, because it seems to signal a bargain. Often, however, an unusually low P/E signals hidden danger. It means investors doubt the quality or sustainability of the

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‘E’—the company’s earnings. So, in their collective wisdom, investors cut the multiple they are willing to pay for those earnings, compared to stocks that are otherwise comparable, or to the market as a whole. These doubts may reflect fears that a company’s business is headed for a slump. Or, investors may fear an industry-wide downturn.

You can say something like this about high dividend yields, especially now. Due to today’s low interest rates, investors earn negligible returns on their fixed-return investments. This leads some to buy high-yield stocks indiscriminately, without looking too closely to see if a yield is high because investors wonder how long the company can keep paying its current dividend.

When a high-yield stock cuts its dividend, the stock’s price generally drops. This may be a temporary setback. Or, it may be the first concrete appearance of the potential risk that the high yield hinted at. Remember, the formula for dividend yield is: dividend/stock price. The yield went up because the stock price (the bottom number in the fraction) went down. The stock price went down because investors collectively saw a long-term risk in the stock.

If the dividend cut is the first concrete sign of the risk that investors foresaw, it can set off a cascade of factors that take the stock’s price down to much lower levels.

3) We also look for these extras

In deciding if particular stocks are good buys for our clients, we spend a lot of time looking for hidden assets. These are assets that investors generally overlook. They may not even appear on a company’s balance sheet.

The classic hidden asset is real estate that has gained value after the company bought it, but still appears on the company’s financial statements at the purchase price.

The value may have gone up because of a general rise in real estate prices. However, value may have also gone up because of favourable changes in the neighborhood, such as a rise in average incomes. This can have a double benefit. In the case of a retailer, for instance, the rise in the value of stores it owns may reflect neighborhood improvements that enhance the long-term potential for sales growth in areas surrounding its stores.

Research spending is a more modern but less certain type of hidden asset. Companies mostly write off their research costs when they spend the money, and this depresses the current year’s earnings.

Information on corporate research spending is freely available, yet many investors pay little attention to it. Investors recognize that research can lead to new or improved products or services. But the payoff for these improvements, if any, will come from long-term sales and profit growth.

Standard accounting practice treats research spending as a regular expense, like rent or the electric bill. But successful research—the kind that leads directly to profit-boosting product or service improvements—is more like an investment with tax-deferral benefits. The company writes off the outlays in the current year, and is only liable for taxes on the benefits as they appear in future years.

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We also feel encouraged if a company is a spinoff, or has the potential to be spun off. A spinoff takes place when a company decides to get rid of a portion of its asset base, possibly because it wants to focus its activities elsewhere, but is unable to sell the assets for a price that it feels reflects their value. Instead, the parent company sets the assets up as a separate division or subsidiary, then hands them out to current shareholders as a special dividend.

Managers of companies naturally prefer to acquire or expand their assets, not get rid of them. Getting rid of assets reduces a company's total potential profit, and this reduces the funds it has available to pay its managers. In addition, spinoffs involve a lot of work and legal fees. The parent will only spin off the unwanted subsidiary if it's fairly confident that this will pay off for shareholders in the long term, if not in the short. Generally, the parent company guesses right.

Studies show that spinoffs do better than comparable existing companies for a number of years after they come on the market. The parent companies also tend to outperform companies to which they are comparable after the spinoff.

Note that in a spinoff, conflicts of interest are being settled in favour of investors. This is the reverse of what happens in new issues, which we discuss in our "reasons for wariness" section that follows.

You might look on a spinoff as a way for a holding company to eliminate a holding company discount. This discount often appears in the stock price of companies that hold a variety of assets, or that invest in a number of businesses. Investors often overlook assets that make up a small part of the total asset picture. They may disregard assets that have little impact on the holding company's total profits.

By setting up a separate company to hold these assets, the parent spurs the market to take note of their value, without diminishing the value of the remaining assets.

We also pay special attention to companies that have what is known as a 'moat' (a distinct and long-lasting competitive advantage). A classic 'moat' example is a network of railway lines. Canadian Pacific is a long-time favourite of ours, partly because its rail network serves as a near-permanent moat. CP faces competition from other forms of transportation, but new railways are unlikely to crop up in any of its markets.

A respected brand name is another kind of hidden asset that can pave the way to extraordinary growth.

At the end of the last century, for instance, many investors saw Apple Computer as a small maker of specialized computers with little growth potential. They under-estimated Apple's hold on its small but dedicated band of customers. The strength of the Apple brand helped the company enter and quickly come to dominate the electronic music and smartphone markets. (The company only shortened its name to Apple Inc. in 2007.)

4) Factors that make us wary

You might think of our wariness factors as a mirror image of hidden assets. They represent the possibility of hidden dangers that many investors overlook or choose to ignore.

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The funny thing is that some corporate insiders and managers, as well as stock brokers and spokespersons for industry associations, may try to portray some of our wariness factors as pluses for the companies involved, and for their investors. Things can work out that way for a time, of course. But you need to keep the potential damage in mind.

Why we are wary of two classes of shares:

A dual-voting structure is a good example. It means a company has two classes of common stock: one class with full voting rights, and another class with partial voting rights, if any.

Boosters of dual-voting share structures maintain that when voting rights are closely held by company management and insiders, it lets a company pursue a longer-term strategy. They feel companies with a single class of shares are at risk of lurching from one fiscal quarter to the next, struggling to stay in tune with changing investor sentiments and shifting market trends.

Things have worked that way in the past in some companies, and will undoubtedly do so in the future. But dual voting structures can also allow gross abuse by controlling interests who own a majority of the company's voting stock, even when those holdings represent a small minority of total shares outstanding. Dual voting structures also let well-meaning but stubborn controlling interests stick indefinitely with money-losing corporate strategies, long after a company with a single share class would have voted them out.

Why we are wary of growth by acquisition

A strategy of growth by acquisition can undoubtedly speed up growth in assets and revenues, but it comes with hidden risks. To start, it can warp the thinking of company managers, since their pay varies with the value of assets they manage. Acquisitions clearly expand profit opportunities for banks and brokers. They collect fees for merger financing. They also collect fees for pre-acquisition research and consulting. This introduces a conflict of interest into these decisions.

Acquisitions may also expand earnings and profits for a company's shareholders. Here, however, the gains are less dependable.

Growth by acquisition is inherently riskier than internal growth, since it carries an above-average chance of unpleasant surprises. That's because a buyer of something rarely knows as much about it as the seller. If you make enough acquisitions, you are bound to buy something with hidden problems. Eventually, those problems come out in the open and hurt the acquirer's earnings.

In extreme cases, growth by acquisition works brilliantly for years, then suddenly erupts into a situation like the one that Valeant Pharmaceuticals (now called Bausch Health) found itself in. Of course, growth by acquisition was just one of several factors that led to Valeant's troubles.

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Why we are wary of IPOs

Initial Public Offerings—also known as IPOs or new issues—are inherently riskier than existing stocks. That's because new issues come to market when it's a good time for a company or its insiders to sell. This may not be, and often isn't, a good time for you to buy.

In addition to the adverse timing, a new issue involves substantial costs that come out of the proceeds of the new-issue sale. New-issue buyers pay these costs, which are well above the brokerage cost of buying existing issues.

Before buying a new issue for our clients, we like to see how well it does in a recession, or a severe market downturn or bear market. Incidentally, we look on new issues as something of an opposite of spinoffs (which we covered in "We also look for these extras" on page 4).

In new issues, the conflicts of interest work against the outside investor. In spinoffs, they work in favour of investors.

Why we are wary of subsidies

Subsidy-dependent and subsidy-seeking business models also make us wary. They can be hugely profitable for a time. However, this business model tends to warp a company's planning.

After all, government subsidies are about as close as you can get to free money. Companies may downgrade their quest for business profit, and instead focus on pleasing the politicians and bureaucrats who control the subsidies. This can pay off, of course. It can also lead to bribery and other ethical lapses, and associated legal problems. In addition, the availability of subsidies can shrink or disappear overnight with a change in the political climate.

What else makes us wary

Involvement in areas where success is hard to predict or repeat. It's particularly easy to underestimate the risk in art and entertainment, for instance, because you only hear about the successes in the media. Most art loses value more or less steadily from the time of its first retail sale. A majority of new feature films do not get shown in theatres and instead go "straight to video".

Managers and promoters of high-risk investing—in gold, oil, real estate, options trading and so on—can enjoy staggering success when their markets boom. But when the boom goes bust, it puts devastating pressure on their business.

Depending on the brokerage business to sell your product can lead to volatile sales, even for promoters of conservative investments. That's why we generally avoid investing in shares of mutual-fund companies, even when they offer a conservative fund family. You are better off owning shares in Canada's banks. They have a diversified business model, so they profit despite shifting investor fashions.

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Involvement in a fading industry, such as tobacco or sugar-based treats, makes us wary. However, the wide variations in performance in the tobacco industry show that some well-run companies manage to prosper, even when their market is shrinking.

Businesses with a product that most customers only buy once. They need a steady stream of new clients, and cannot take advantage of cross-sale opportunities that are open to companies with a broad range of products.

Stocks that have gone up far quicker than the indexes for several years make us wary. When companies create that much wealth, that fast, they often cause their own downfall. That's especially true of top-performing stocks that owe their success to several of our wariness factors. One common combo is dependence on acquisitions, coupled with a boom (or a streak of luck) in a highly cyclical or unpredictable industry.

Usually these stocks rise due to a combination of soaring earnings and a rising P/E ratio. So a modest earnings setback, coupled with a plunging P/E ratio, can lead to an extraordinary plunge in the stock.

5) **How we make room for new buys**

The foregoing gives you an idea of the decisions we make before we add a new stock to our buy list. After that, we still need to decide who to buy it for, and where to put it.

Regardless of how strongly we feel about the new stock, we only put it in a client's account if it fits in with the client's investment objectives, financial circumstances and temperament.

Then we have to decide how much of the stock to buy, which of a client's several accounts (personal account, RRSP or whatever) to put it in, and how to pay for it.

We limit how many stocks we buy in a portfolio. If a portfolio already has about the right number of stocks—neither too many nor too few—then we may need to sell an existing stock to make room for its replacement. In addition, we may need to sell something to raise cash for the new purchase. In that case, we need to consider capital-gains tax liability.

We also want to make sure that after we've added the new stock, the portfolio will continue to adhere to our three-part Successful Investor portfolio-building approach.

Summing up

We weigh and balance all these five factors when choosing stocks for our clients' portfolios. Our process demands a lot of judgment calls. We sometimes buy stocks despite the presence of one or more of our wariness factors, especially if hidden assets offset the risk. It's impossible to get it right every time, of course. Sometimes, hidden assets stay hidden for years if not decades. Or, they turn out to be less powerful than we expected. Sometimes, despite a number of wariness factors, companies thrive for years or even decades.

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Successful investing is easy but not simple. Our process may seem complex, but the results make it worthwhile. Our Successful Investor methodology helps our clients in two ways: it cuts your risk of severe or lasting losses during market downturns, and it helps you profit when markets move up.

Fiduciary duty helps reduce conflicts of interest

Overall, investors lose more money to conflicts of interest than to any other single risk. That's not a comment about the average broker's sense of ethics. It's simply a matter of frequency of exposure times risk per exposure.

For example, suppose you tell your broker that you have some money and you want to invest it aggressively. He could suggest buying, say, some stock in Alphabet Inc. (the new parent company for Google's Internet search business, which is still called Google, and other operations, such as self-driving cars and home thermostats). Alphabet is a relatively young company in a fast-changing field, and it's non-dividend-paying, so it's somewhat aggressive as an investment. It has substantial profit potential, however, since it is the leader by far in a field with a lot of growth ahead. But if the broker advises you to buy Google, you'd only have to buy it once, and you might pay a commission of, say, 2% to 3% of the stock's price.

The broker is far better off financially if he advises you to try your luck in stock options. (These are investment products that give you the right but not the obligation to buy a stock for a fixed price, within a fixed time period.) In stock options, you'd pay a higher percentage commission on your outlay, perhaps 3% to 10%. Also, your stock options would have a limited life—they would expire in a fixed period of weeks or months. Then you would pay another commission to replace them.

Stock options trading is a great deal for brokers, because options players pay much higher commissions than stock investors, and they pay commissions much more frequently. For the same reason, options are a terrible deal for investors who get involved in them.

Of course, a handful of options players make money—after all, somebody has to win the lottery. But on average, you just can't make enough of a gross profit to pay the commission costs and leave yourself with any profit. That's why most options players wind up losing money.

You'll find lots of conflicts of interest like this in the investment/financial business. It's hard for a broker to settle these conflicts in the investor's favour and still make a good living. However, brokers have no legal obligation to settle conflicts of interest in the clients' favour. By law, they only need to ensure that investments they sell are "suitable" for a client. Stock options generally qualify as suitable for a client who wants to invest aggressively and who can afford to absorb the inevitable losses.

Portfolio managers, like lawyers and doctors, have to live up to a "fiduciary" standard. That is, rather than simply adhere to the much looser "suitability" standard, they have to do what's best for the client. They have to try to avoid profiting from any conflicts of interest with their clients.

Several countries have already changed the law so that brokers have to adhere to a fiduciary standard. The U.S. Department of Labor is now working on issuing new rules that require brokers to live up to a fiduciary standard when dealing with individual retirement accounts (the U.S. equivalent of RRSPs). Similar rules may follow in Canada in the next few years.

A change like this would likely mean stronger competition for our portfolio management affiliate, Successful Investor Wealth Management Inc., as more portfolio managers were obliged to adhere to a fiduciary standard.

However, our business plan calls for us to eliminate the possibility of conflicts of interest with our clients, rather than simply overcome the all-too-human urge to profit from them.

We see a shift to a fiduciary standard as the right thing for most if not all of the investment/ financial industry. It's one of those proverbial ideas whose time has come. It would be good for investors and good for the economy. Besides, we're confident we can compete on investment results alone.

There's a revolution brewing in Canada's brokerage industry

(....but hang on to your bank stocks)

Canada's provincial securities commissions are looking at three longstanding practices that help the brokerage industry and securities salespeople, but represent a steady drain on the finances of many investors.

Trailer fees and other "embedded" fees. Mutual fund buyers now pay a yearly fee or Management Expense Ratio (MER) of perhaps 2.5% of the value of most mutual funds they invest in. One and a half percentage points generally stays with the fund company, to pay for management of the funds, record-keeping, administration and so on; one percentage point goes to the securities firm where the investor bought the fund, to be shared between the firm and the salesperson. The idea is that this fee goes to pay for continuing advice to the investor. The fund company continues to charge the 1% to the investor, and pay it to the brokerage firm, every year for as long as the investor owns the fund.

This "trailer fee," as it's called, is "embedded" in the fund investment. It's part of the deal when you buy. The securities commissions have now forced brokers to disclose those trailers. They have also raised the idea that investors should have to agree separately to pay the yearly fee. After all, paying that extra 1% every year takes a surprisingly big bite out of the growth in your investment. Most investors would only agree to pay this extra 1% if they felt they were getting something for their money.

The brokerage industry likes things as they are. The industry argues that under this system, investors with large fund holdings subsidize the brokerage industry's cost of providing continuing advice to small fund holders. If the trailer fee becomes optional, numerous fund investors might choose not to pay it. Small investors would then lose their access to continuing advice, according to the industry.

In fact, small investors rarely get meaningful financial advice. They have to fend for themselves. Brokers focus on servicing more prosperous fund investors who may have additional funds to invest.

For that matter, discount brokers also collect the trailer fee, even though they provide little or no advice or service to fund holders.

“Best interest” compared to suitability. Under current regulations, brokers can sell a wide variety of securities to investors, so long as they satisfy the “suitability” standard: the investment must seem “suitable” to the needs of the investor.

However, suitable investments come with a wide range of fees. Some reward the broker and his or her employer much more than others. That’s because high-fee investments are generally riskier than average-fee investments. Their sponsors have to pay extra to get brokers to sell them. This introduces a clear conflict of interest: what’s best for the broker is rarely best for the client.

In contrast, portfolio managers must live up to a “best interest”: standard (also known as a fiduciary standard). They can only place their clients’ funds in investments that are in the client’s best interest.

Now the securities commissions are thinking about setting aside the old “suitability” standard, and replacing it with a “best interest” standard. Raising the standard to this level would eliminate a sizeable part of the sales that the brokerage industry currently makes for its clients every year.

Regulation of titles. Most brokers operate under the title “Financial advisor” or “Investment advisor.” Some investors see this as title inflation, since a broker’s main job is to sell securities, not advise investors. One solution would be to raise the job requirements, so that brokers would qualify to offer financial planning or investment management. This, though, would not change the key drawback to the current system: the sharp conflicts of interest between brokers and their clients. Worse, many investors are unaware of these conflicts.

Implementing any one of these three measures could take a significant bite out of the incomes of brokers and the firms they work for. In fact, some advisors are already telling clients to reduce their holdings of bank stocks, since Canada’s top five banks own Canada’s biggest brokerage firms.

We think it’s too early to worry about Canada’s bank stocks. The coming changes may prove to be less than revolutionary. Entrenched interests like those in the financial industry do not give their privileges up so easily. It could be years before any of these reforms go into effect. By the time they start to cut into the bank earnings, prices of the bank stocks may have already gone far above today’s levels.

Straight-forward advice for a stress-free retirement

These days, more investors suffer from what you might call pre-retirement financial stress syndrome. That’s the malady that strikes when it dawns on you that you don’t have enough money saved to be able to earn the retirement income stream you were banking on.

Some investors in this situation ask us if we can supply one last can’t-miss trading idea that can make up for the shortfall in their savings (brokers sometimes refer to this as a “rescue stock”). This, of course, is unrealistic. If we could find stocks with that rare combination of low risk and high potential, why would we ever recommend anything else?

In fact, if you're heading into retirement and are short of money, you should move your investing in the opposite direction: aim for safer investments, rather than taking one last gamble.

Here are two practical solutions to a pre-retirement money shortage. The funny thing is that either one can improve your quality of life in retirement, in addition to your finances.

The first solution is to work longer. Put off retiring from your current position, or continue to work part-time. Or, find full- or part-time work in another field. To start, this can solve a common problem that many retirees fail to foresee: how hard it can be, and how much it can cost, to fill up all the free time that comes with retirement.

Many retirees admit that they fill this time by giving free rein to Parkinson's Law ("work expands to fill the time allotted for its completion.") Some find that minor tasks take over their lives, so they never get to tackle the more fulfilling projects that they've put off till retirement, such as learning another language, taking courses, organizing a stamp collection or whatever.

A part-time job, paid or volunteer, gets you out of the house and provides contact with other people. Many studies suggest these two fringe benefits can prolong your life and keep you healthy.

The second solution is something you should begin before you retire. You start by doing a detailed study of how you spend your money now. Then, you analyze your findings to see what expenses you can cut or eliminate. This too can have fringe benefits, especially if it helps you break unhealthy habits.

For instance, a friend decided years ago that he could no longer afford to smoke cigarettes in retirement, but he couldn't bear the thought of quitting. So he compromised with himself: he quit smoking what he referred to as "tailor-mades," and switched to "roll-your-owns" (which were less heavily taxed and way cheaper than ready-made cigarettes).

The rigmarole of rolling his own cigarettes immediately led him to increase the time between cigarettes, and this cut down his total nicotine intake. Eventually he quit smoking altogether, after having tried and failed many times during his working years.

Smoking is less common today, of course. But cutting out fast food can save the average Canadian anywhere from hundreds to thousands of dollars a year. In retirement, you'll have time for a cooking class or two, and soon you'll be able to cook better-tasting and healthier food than you can buy at any fast-food chain. The cost difference between home cooking and fast food can be substantial, and it's like tax-free income.

These two retirement tactics may come hard or easy to you, depending, in part, on your upbringing. People who come from humble circumstances often develop a degree of both frugality and industriousness early in life. Finding part-time work while in school, and making every penny count, becomes a game for them.

It's easy to let frugality evaporate in mid-life, when money becomes more plentiful. But some find that if they return to frugality later in life, it's more fun than ever. It's a little like taking pleasure from a game that you haven't played since you were young.

Your enjoyment of, or distaste for, frugality is partly a matter of attitude. But that's under your control. Don't think of it as penny-pinching. Think of it as taking charge of a part of your life, so that more of your money goes to things you choose.

RRSP contributions and withdrawals—why RRSP meltdown strategies can actually jeopardize your retirement

RRSP Contribution Limits: Double Profit and Double Loss

Registered Retirement Savings Plans or RRSPs are a little like other investment accounts, except for their tax treatment. You can put up to 18% of the previous year's earned income, maximum $31,560 for 2024, into an RRSP, and deduct it from your taxable income. (The limit is lower for pension plan members.) You only pay taxes on your RRSP investment, and the investment income it earns, when you make withdrawals from your RRSP.

You might think of investment gains in an RRSP as a double profit. Instead of paying up to 50% of your profit to the government in taxes and keeping 50% to work for you, you keep 100% of your profit working for you, until you take it out.

If you lose money in an RRSP, however, you have a double loss. You lose your money, and you lose the opportunity to have that money grow in a tax-deferred environment for years, if not decades, until you take it out.

That's why successful investors put only their safest investments in RRSPs. If they indulge in penny stocks, stock options or short-term trading, they do so outside their RRSPs. That way, they avoid the double loss. And they can use any losses they do suffer to offset taxable capital gains.

Of course, there are times when you may want to withdraw money from an RRSP. This has spawned one strategy that can bring you more risk than reward.

How the RRSP meltdown works

When you take money out of your RRSP, you have to pay tax on your withdrawal at the same rate as ordinary income in the year you make the withdrawal. However, under an RRSP meltdown strategy, you would offset the additional tax by taking out an investment loan and making the interest payments from funds you withdraw from your RRSP (the withdrawals must be equal to the interest payment).

Since the interest on the loan is tax deductible, the tax on the RRSP withdrawal is cancelled out. This, in theory, results in zero tax owing on your withdrawal.

You can then use the investment loan to buy dividend-paying stocks, which you would use to provide income during retirement. Dividend-paying stocks also have the advantage of being very tax efficient.

Judging an RRSP meltdown strategy by the numbers

The idea of withdrawing funds from an RRSP tax free has obvious appeal. However, we've looked at a number of different RRSP meltdown strategies over the years and, for the most part, we have found that they serve the interests of the brokerage industry more than those of investors. Here's why:

Say you make a $5,000 withdrawal from your RRSP and want to offset your tax payable using the interest from an investment loan. Supposing a 5% annual interest rate on the investment loan, you would have to borrow $100,000 to invest in dividend-paying stocks to generate a large enough interest deduction to offset the withdrawal.

The fees and commissions that the investor generates when he or she invests the money are an obvious benefit to the investor's broker. The investor, meanwhile, significantly increases his or her leverage. Moreover, many investors attempt the RRSP meltdown when they're at or near retirement. In other words, at the worst time to take on additional debt.

4 ways to make the most of your RRIF conversion

If you have one or more RRSPs (registered retirement savings plans), you'll have to wind them up at the end of the year in which you turn 71.

When you do, you'll have three main retirement investing options:

1. You can cash in your RRSP and withdraw the funds in a lump sum. In most cases, this is a poor option, since you'll be taxed on the entire amount in that year as ordinary income.

2. You can purchase an annuity.

3. You can convert your RRSP into a RRIF (registered retirement income fund).

RRIFs are the best options for most investors

Converting to a RRIF is the best retirement option for most investors. That's because RRIFs offer more flexibility and tax savings than annuities or a lump-sum withdrawal.

Like an RRSP, a RRIF can hold a range of investments. You don't need to sell your RRSP holdings when you convert—you just transfer them to your RRIF.

When you hold a RRIF, you must withdraw a minimum each year and report that amount for tax purposes (you may withdraw amounts above the minimum at any time). The Canada Revenue Agency sets your minimum withdrawal for each year according to a schedule that starts at 5.28% of the RRIF's year-end value at age 71, reaches 6.82% at age 80, and levels off at 20.00% at age 95.

Here are four tactics for making the most of your tax savings when you convert your RRSP to a RRIF:

1. **Use a younger spouse's age to set a lower minimum withdrawal:** For example, if your spouse is 65 when you turn 71, then the minimum withdrawal set by the Canada Revenue Agency is 4.00%, rather than 5.28%. The rate increases yearly until it reaches 5.28% when your spouse turns 71. It then follows the normal schedule, reaching 6.82% when your spouse reaches 80, and levelling off at 20.00% at age 95.

2. **Stick with late-in-the-year payments:** You start making withdrawals from your RRIF in the year following the year in which the RRIF is established. For example, if you open a RRIF in 2024, you have to make your first withdrawal by December 31, 2025.

   You can receive RRIF payments on any schedule, though most investors receive them either monthly or yearly. Unless you need monthly payments to live on, it's best to request only one payment per year, near year-end, to prolong your tax deferral. For practical purposes, however, set a date such as December 15 to allow for delays. Just contact the broker or institution that holds your RRIF to set up your yearly payment. (If you are a portfolio management client of Successful Investor Wealth Management, we can arrange this for you.)

3. **Withdraw shares instead of cash:** Keep in mind that you don't need to make your minimum withdrawal in cash. Instead, you may make an "in-kind" withdrawal of shares instead of cash.

4. **Name a RRIF beneficiary:** Assets in a RRIF automatically pass on to your beneficiaries in the event of your death. If you name your spouse or a financially dependent child under 18 as beneficiary, assets are passed on tax-free to their RRIF or RRSP.

Account for withholding tax when withdrawing more than the minimum requirement

Note that when you make a RRIF withdrawal above the minimum requirement, the Canada Revenue Agency requires your financial institution to withhold tax at the time of withdrawal. Tax is withheld at the rate of 10% for amounts up to $5,000, 20% for amounts between $5,001 and $15,000, and 30% on $15,001 and up.

The tax on your RRIF withdrawal may be more or less than the amount withheld. You'll have to report the full withdrawal as income and pay tax at ordinary rates. But you'll get a credit against taxes owing for the tax that is withheld.

How to shelter your gains with a Tax-Free Savings Account

The TFSA Contribution Limit

The federal government first made the Tax-free Savings Account (TFSA) available to Canadian investors in January 2009. These accounts let you earn investment income—including interest, dividends and capital gains—tax free.

You can now contribute a maximum of $7,000 to your TFSA in 2024. However, if you have not contributed in the past, or did not meet maximum contributions in any given year, you can catch up on unused contributions. (Maximums were $5,000 per year from 2009 to 2012, $5,500 per year from 2013 to 2014, $10,000 in 2015, and $5,500 in 2016, 2017 and 2018. The limit then rose to $6,000 in 2019, 2020, 2021 and 2022, and increased again to $6,500 in 2023.)

That means that if you hadn't contributed yet (and were 18 years or older in 2009) you could contribute up to $95,000 in 2024.

Use your TFSA to complement your RRSP.

Generally speaking, your TFSA can hold the same investments as an RRSP. This includes cash, mutual funds, publicly traded stocks, GICs and bonds.

Contributions are not tax deductible, as they are with an RRSP. However, unlike withdrawals from RRSPs (or withdrawals for RRIFs to which most RRSPs are converted), withdrawals from a TFSA are not taxed. In this respect, RRSPs and TFSAs are mirror images of each other in the way they impact your taxes.

This makes the TFSA a good vehicle for more short-term savings goals, like saving up for a down payment on a first home. If funds are limited, you may need to choose between RRSP and TFSA contributions. RRSPs may be the better choice in years of high income when you're in the top tax brackets, since RRSP contributions are deductible from your taxable income. In years of low or no income—such as when you're in school, beginning your career or between jobs—TFSAs may be the better choice.

Investing in a TFSA in low-income years will provide a real benefit in retirement. When you're retired, you can draw down your TFSA first, incurring zero tax liabilities. After that, you can begin making taxable RRSP withdrawals.

Hold low-risk investments in your TFSA

We think you are best to hold lower-risk investments in your TFSA. That's because you don't want to suffer big losses in these accounts. If you do, you can't use those losses to offset capital gains, as is the case with taxable (non-registered) accounts. You'll also lose the main advantage of a TFSA: sheltering gains from tax. You won't have gains to shelter if the value of your investments falls.

You can hold U.S. stocks in your TFSA, but Canadian shareholders pay a 15% withholding tax on dividends from U.S. stocks. In most cases, if you hold the stocks outside your RRSP, you can get a Canadian income tax credit to offset that tax. If you hold U.S. or foreign stocks in an RRSP, the withholding tax doesn't apply. However, note that if you hold U.S. stocks in a TFSA, you can't get back the withholding tax.

If you are just starting a TFSA, you likely won't have enough funds to build a diversified portfolio within these accounts. That's why you are best to hold lower risk and low-fee equity investments. These include interest-bearing investments, like high-yield savings accounts such as those from President's Choice Financial or Tangerine; or exchange-traded funds (ETFs), which give instant diversification.

Stay away from "wrap accounts"

Please note that I'm a fee-based portfolio manager (not a broker). You might say this makes me a competitor of sorts with brokers offering wrap accounts.

A wrap account is an investment account in which the investor receives brokerage and possibly other investment services for a single, predetermined price—usually a percentage of assets ranging from 1% to 3%. For the one fee, wrap accounts may provide investment counseling, portfolio management, brokerage commissions, and administration.

Long before I began acting as a portfolio manager, I regularly advised investors that it's unwise to give a broker trading authority over your account, directly or indirectly. The conflict of interest is simply too great. It gives brokers an incentive to over-trade, or to make transactions that favour the broker's interest more than the investor's.

This risk also applies to non-broker managers who manage funds in broker-affiliated wrap accounts. These managers have an incentive to please the broker who hired them, rather than the client who provides the funds. To do that, managers may invest in ways that favour the brokers' interests over the clients', such as trading more actively than necessary, or buying stocks that brokers want to get rid of, perhaps to accommodate the broker's major clients.

If you want to hire a portfolio manager, my advice is to choose one who is not broker-owned or affiliated, and deal directly with him.

Many individual brokers rise above the industry's conflicts of interest and always put their clients first, even when this puts them at odds with their employers. However, brokers like these are in the minority. They are also at a disadvantage when it comes to rising to positions of authority in a brokerage firm. You are not likely to find them running the firm's wrap account program.

Why we stay away from index-linked GICs

It is generally a good idea to shelter interest-bearing investments in a registered savings plan like your RRSP, since you pay tax on 100% of all interest income you earn. Your RRSP interest rates from investments like GICs may not be high until rates climb again, but you will get the full value of your investment, free of taxes.

However, there is a class of GICs that we prefer to avoid, for the simple reason that they tend to be more lucrative for the seller than the investor. Also, while this investment is pegged to stock indexes, you are really getting paid interest on the indexes, which increases your tax liability.

Index-linked GICs (guaranteed investment certificates) provide the buyer with a return that is "linked" to the direction of the stock market in a given period. A quick look at the rules on these deals may give you the impression that the investor can profit substantially with little risk.

However, the link depends on a formula or set of rules that is buried in the fine print.
These investments are marketed as offering all of the advantages of stock-market investing with none of the risk. But banks and insurance companies aren't in the business of giving customers something for nothing. The capital gain that holders get depends on an ingenious formula that is cleverly designed to sound generous while minimizing the potential payout.

For instance, the payout may depend on the average level of the index over the course of a year, rather than the year-end value. This will tend to diminish investor returns.

Index-linked GICs fail to offer the big tax advantages of stock investing

Another drawback is that returns on index-linked GICs are taxed as interest. That's because you're not actually investing in the stock indexes themselves; you're just getting paid interest based on the change in the indexes. That's a drawback because interest is the highest taxed of all investment returns.

Usually, stock-market investing produces capital gains and dividend income, both of which are taxed at a much lower rate than interest. (Of course, if you hold the GICs in an RRSP, all income is tax deferred.)

These GICs do protect your principal. But few investors if any make a good return on index-linked GICs. Most make less (at times substantially less) in index-linked GICs than they would have made in old-fashioned GICs.

If safety is your primary concern, you'd be better off with "plain vanilla" stocks and bonds. If you already own index-linked GICs, our advice is to cash them in at the earliest opportunity. If you don't own them, we recommend that you stay out.

Here's why we advise staying out of annuities

Depending on your age, your investment experience, the time you want to devote to your investments, your access to impartial advisors, your desire to leave an estate to your heirs, and other factors, an annuity may be a good choice for part of your assets.

There are basically three types of annuities:

Term-certain annuities are payable to you, or your estate, for a fixed number of years. Your estate will receive the payments even if you die. You could out-live this type of annuity.

Single-life annuities are payable to you as long as you are alive. These annuities may come with a minimum number of years of payments. If you die while the minimum payment period is still underway, future payments would go to your estate.

Joint and last survivor life annuities are payable as long as you, or your spouse, are alive.

One key drawback to annuities right now is that annuity rates are closely linked to the overall level of interest rates, and interest rates, while rising, are still near historic lows. In addition, annuities have no liquidity. As interest rates and inflation move up, your annuity payments remain fixed and you lose purchasing power. You also have no way to re-arrange your portfolio. This is why we generally advise against investing in annuities. For the same reason, we advise against buying long-term bonds.

We generally advise investors to look at other alternatives to annuities. Many investors find they are able to generate returns that beat current annuity rates over time, if they invest conservatively in the kinds of high-quality investments that we recommend, mainly stocks, well balanced across the five economic sectors.

Part of that return will come in the form of dividends from Canadian stocks, which qualify for the dividend tax credit and are consequently taxed at a lower rate than annuity or pension payments. The remainder of the return would come in the form of capital gains, which are taxed at half the rate of annuity or pension payments, and are only taxed in the year when you sell.

Be alert if your broker retires

We've all been exposed to bad barbers, bad restaurateurs, bad schoolteachers, and all sorts of other people who reflect poorly on the rest of their occupation or profession. It should come as no surprise that you can also find bad stockbrokers and bad financial planners/mutual fund salespeople. After all, the financial industry deals in intangibles, so bad advice can take a lot longer to spot than, say, a bad haircut.

Classic investment errors that generate a lot of commissions can also generate profits for a time, at least in a rising market like the one we're now in.

Moreover, unlike other livelihoods, the brokerage industry provides financial incentives that can make it highly profitable to abuse client trust. These incentives are so insidious and powerful that they can warp the decisions of brokers who honestly want to do the right thing for their clients.

You always need to be on guard. That's especially so if you find yourself switching brokers involuntarily.

When a broker retires, he can sell his clientele (or "book of business", as it's called) to another broker. Now is a good time to do so. The sale price of a book is based on assets in client accounts, and on commissions and fees those clients generated in the past few years. Both figures have been rising since the market bottomed out in 2009.

A truly ethical broker would be extremely choosy about who he sells to. On the other hand, the final sale price usually includes a percentage of commissions and fees the book generates for several years after the sale. If a retiring broker sells his book to a more aggressive buying broker, he may wind up receiving a higher total sales price.

By the time a broker puts his book up for sale, he may be more concerned with his own retirement than yours.

The buyer is often a younger broker who has to borrow the down payment, then follow it up with a series of payments. That usually means the new broker needs to wring a larger flow of commissions and fees out of the clients than the retiring broker ever did, just to service his debt.

This came to mind recently when a friend told me about his experience with a new broker. It started out like a lot of financial horror stories that I've heard over the years.

He had a high opinion of his old broker. His new broker seems even more knowledgeable and sophisticated than the old one. But my friend often finds himself going along with recommendations from the new broker that seem aimed largely at generating commissions. That's a particularly bad sign this early in the relationship, when presumably a new broker is on his best behavior.

When a broker starts out making recommendations that serve his interests better than yours, things can only get worse. After all, he can earn ever-higher commissions and fees by advising you to take steps that are even further out of tune with your long-term needs. You may not find out just how bad they are until the next inevitable market downturn.

Avoid "taking money off the table"

If you try to profit by relying on the short-term investing strategy of acting on market predictions, it will likely cost you money and hurt your investment returns.

This strategy is centered around "taking money off the table."

Investors may try to improve their returns by taking money out of the stock market when they feel risk is high. They often get this urge after a few weeks or months of bad financial news or unsettling political developments.

By then, however, the market may have already dropped far enough to offset any negative developments. Often, these temporary sellers wind up buying their way back into the market when the news has improved and stock prices have gone well above the price they were sold at.

All too often, brokers encourage this short-term investing strategy. They may advise clients to "take some money off the table," setting up a false analogy between investing and gambling. That's in a broker's interest, but not yours.

Every sale generates a commission, which goes to the broker. It also gives the broker the opportunity to sell the client something new and make another commission.

The investor may re-invest in a product that's more profitable for the broker—selling the proceeds of a stock sale to buy an annuity or a universal life insurance policy, say. However, investors at discount brokers also manage to sell low and buy back high, without any broker encouragement.

Dalbar, a Boston-based financial-research firm, published a pioneering study of U.S. investor returns in 1994, covering the previous decade. In the latest update of its study, it found that the average investor in all U.S. stock funds earned 7.1% annually over the past 30 years. That's around two-thirds of the 10.7% annual return that the S&P 500 stock index achieved in the three full decades of that period.

Investors underperformed the index mainly by selling or staying out of the market when they saw the outlook as risky, and then getting back in when things looked better to them. By then, prices were generally higher. We suspect a similar study of Canadian investors who follow this stock strategy would come to a similar conclusion.

Don't misunderstand. You need to use a short-term investing strategy and a stock strategy that suits both your goals and your temperament. For you, that may mean holding six months' worth of income in a money market fund.

Holding cash reserves generally cuts your long-term returns. That's because six-month interest rates are generally well below the average long-term return in the stock market. But you'll lose far more if you try to cut risk or improve your returns by moving in and out of the market in response to market predictions (yours or anyone else's).

To succeed as an investor, you need to get used to the idea that short-term declines come along unpredictably. These declines are common enough that investors continually think about them. But they are far less common than the predictions that the next one is right around the corner.

Investors need a healthy sense of skepticism for both good and bad news—but not to the point when they react to that news as a short-term investing. Being too quick to sell or buy can cost you long-term profits.

Financial contingency plans are a great idea—but pick someone you can trust!

It's a good idea to have some financial contingency plan in place at any age, so that someone you trust can take charge of your finances and investments if you can't handle them yourself. However, it's best to focus on finding someone you trust thoroughly, and giving that person as much latitude as possible.

The alternative—leaving fixed instructions—introduces a random element that can only hurt you. After all, fixed instructions (such as "If I get sick, convert all my holdings into T-bills") won't add to your wealth. But they may turn out to be wholly inappropriate, and whoever you put in charge won't be able to do anything different.

This subject came up recently in a conversation with a portfolio management client who is 82. She is now in excellent physical and mental health, but she recognizes that she won't live forever. She suggested that perhaps she should direct us to sell half her portfolio if she feels she is beginning to experience doubts about her abilities, and sell all of her portfolio if she learns she has a terminal illness.

I'm happy to follow any sell direction she gives me. But fixed instructions like these are likely to mean that she will sell at a random time, rather than at a time that makes financial sense for her and her heirs.

In my experience, when people begin to “lose it,” they often become excessively fearful. They might experience deep doubts simply because they watched an overly negative commentator on TV. That can happen at the worst possible time to sell—when stock prices have dropped but are close to a bottom. (In fact, that's when the negative guys get lots of TV airtime.)

As for selling everything when you learn you have a terminal illness, guesswork figures prominently in any estimate of your lifespan. If your doctor says you may only have six more weeks, he or she will probably need to add, “but you could live another one to three years or more.”

Here's the problem: After you sell, your money will only earn about 4% a year at current interest rates. But if, like my client, you expect to pass most of your money on to your kids, then you really should invest with their objectives and time horizon in mind. Why limit them to earning only 4% a year from the time you get the bad news until your estate is distributed, possibly years later?

Most investors are better off to give a medical power of attorney to their most trusted family member. This power of attorney can only be exercised if your doctor agrees you are no longer mentally competent. In addition to investment and financial decisions, this power of attorney also covers medical decisions, such as choice of treatment, or when to discontinue treatment. It's something to discuss with a lawyer.

If you don't want to burden a single family member with this responsibility, then you might want to empower a group of, say, three people—chosen from among family members, your doctor, lawyer, dentist, accountant, family friend, or clergy, say—to act for you on majority vote of the group.

There is no neat solution to this problem that works in every case. However, any reasonable arrangement that involves family members and trusted professionals is unlikely to go too far wrong. But you can't say that about pre-ordained decisions that may come into effect just when they can do maximum harm to your finances.

Offshore investing risks can easily outweigh the rewards

Earnings in an "offshore account" are generally not taxed or are taxed lightly by the country where the bank or brokerage account is located. This includes jurisdictions such as Switzerland or the Cayman Islands.

However, Canadian residents are obliged to report any income they earn offshore on their Canadian tax returns. (You can only claim tax-exempt "non-resident" status without giving up citizenship by staying outside Canada for more than half of a tax year.) Offshore banks generally do not cooperate with, or provide reports to the Canada Revenue Agency on your income earned from any form of investment. So it's up to you to comply with these reporting requirements.

There are, in some cases, ways of structuring your business affairs using offshore companies or trusts that can cut or defer your taxes. You may also be able to protect your assets from legal judgments rendered in Canada if they are held in accounts in certain foreign jurisdictions. However, the reporting rules for foreign investment property are complex, the information required is extensive, and the penalties for non-compliance are steep.

You'll need to consult a tax advisor or lawyer to structure the shelter correctly. Note, however, that some law firms market tax shelters as part of their business, and other lawyers or tax advisors may disagree with the legality of those shelters. What's more, the fees involved in setting up and maintaining offshore accounts may offset a lot of your tax savings. It's also harder to evaluate and obtain adequate information on an offshore investment.

An offshore account may help you defer or avoid taxes on investment profits, legally or otherwise. However, when you invest money with any company, you need to investigate carefully and make sure you have adequate safeguards. Otherwise you may have losses rather than profits.

Let me put it this way: I advise against doing anything illegal to cut taxes. Moreover, when you invest with the intention of evading taxes, you may put yourself at risk of losses that exceed what the taxes would have cost you.

Conclusion

In the simplest terms, wealth management involves a relationship between an investor and an investment professional that serves the interests of the investor by fulfilling his or her financial goals. The professional fills the role of investment counsellor and portfolio manager.

In practice, wealth management is a large, complex business in which the investment professionals range from large financial institutions to individual investment advisors. In many cases, both large institutions and individual advisors operate under conflicts of interest that may lead them to recommend investments that primarily serve the interest of the brokers and advisors and may not be in the best financial interests of the investor/client.

It follows that a client's financial interests are best served when wealth management is conducted on a simple, fee-based system free of brokerage ties and based on an investment approach that has achieved above-average results over the long term.

Our wealth management approach is grounded in our three-part investing program which also forms the core of all the advice you get in our newsletters, and on TSI Network.

1. **Invest mainly in well-established, mainly dividend-paying companies.**

   When the market goes into a lengthy downturn, these stocks generally keep paying their dividends, and they are among the first to recover when conditions improve.

2. **Spread your money out across the five main economic sectors (Manufacturing & Industry; Resources & Commodities; Consumer; Finance; and Utilities).**

   This helps you avoid excess exposure to any one segment of the market that is headed for trouble. Diversifying across the five sectors will also dampen your portfolio's volatility in the long term, without the shrinking in its potential that you'd get if you invest significantly in bonds yielding little more than 4%.

3. **Avoid or downplay stocks in the broker/media limelight.**

   That limelight tends to raise investor expectations to excessive levels. When companies fail to live up to expectations, these stocks can plunge. Remember, when expectations are excessive, occasional failure to live up to them is virtually guaranteed, in the long term if not in the short.

These three investing philosophy principles guide us in every portfolio we manage. Using these three value-investing principles will help protect your money during periods of market turbulence, and help you profit when the market rises.

About TSI Network

With over four decades of experience as an advisor, commentator, editor and publisher, Pat McKeough has a long record of determining which stocks are bound to reward investors most.

Over the past two decades he has been the editor and publisher of a growing series of investment newsletters through *TSI Network.* Pat also offers two investment advice services, *Inner Circle* and the advanced *Inner Circle Pro*. Since 1999, he and his team have put his investment approach to work for private clients in his Successful Investor Wealth Management business.

His philosophy is anchored in safety and a balanced portfolio to generate accelerating gains for subscribers and clients. TSI Network now publishes seven newsletters for every kind of investor:

1. ***The Successful Investor***—Pat's flagship advisory continues to be a beacon for Canadian investors seeking growing gains and reduced risk with the best Canadian stocks.

2. ***Power Growth Investor***—If you like the idea of "a conservative approach to aggressive investing", this advisory has Canadian and U.S. stocks with escalating growth potential.

3. ***Wall Street Stock Forecaster***—Your portfolio is much stronger with at least 20% in U.S. stocks—and this special advisory covers the 70 best U.S. stocks for Canadians.

4. ***Canadian Wealth Advisor***—A 'safety-first' advisory offering you the best conservative strategies based on well-established Canadian dividend stocks, ETFs and REITs.

5. ***TSI Dividend Advisor***—In this advisory, our exclusive Dividend Sustainability Ratings® will change the way you look at dividend stocks—and the way you invest in them.

6. ***Spinoffs & Takeovers***—If you'd like "the closest thing to a sure thing in investing," this advisory on spinoffs and other special opportunities is utterly unique.

7. ***The Best ETFs for Canadian Investors***—This ground-breaking publication shows you how to get the best results with ETFs as these investments explode in popularity.

In 2002, Pat founded his ***Inner Circle***, offering investors more personal attention and interaction with their investments, plus access to his four original publications. Membership gives you the opportunity to ask Pat your personal investment questions and includes his commentaries and answers to questions posed by other Inner Circle Members. In 2017 he launched ***Inner Circle Pro***, an advanced group with the same privileges that receives all seven of his newsletters.

Through ***Successful Investor Wealth Management***, Pat and his investment team manage over $1 billion for individual Canadian investors. This service clearly reflects his philosophy—free of comprising ties to outside brokerages, with no hidden costs or commissions, the team charts an independent course on behalf of our clients. For the past 22 years the portfolios they manage for clients have generated an uncommonly high annual average return.

You will find more information on all of these services at www.tsinetwork.ca

Successful Investor Wealth Management

Pat McKeough offers personal portfolio management advice to a number of individual investors, his Successful Investor Wealth Management clients.

Before becoming our clients, many followed Pat's advice through our investment newsletters. Others were referred to us by satisfied portfolio management clients. All benefit from the fact that this service is free of the conflicts of interest that distort so many other sources of investment advice.

A strong team of experts contribute an enormous amount of time and research to the Successful Investor Wealth Management service. But Pat personally approves every transaction in every portfolio.

If you'd like to know more about this unique portfolio management service, please call **1-888-292-0296**