Planning, performance, integrity add up to success

Investment firms need strategy to keep customers satisfied

RAY TURCHANSKY

Investors face a litany of issues that vary in severity depending on the investment firm they deal with, such as how they are charged, transparency of fee disclosure and client investment statements, plus independence of financial advice.

John Nicola of Vancouver, with more than 35 years in the investment business, says that how an investment firm tackles those issues goes a long way in determining how successful a company is.

Nicola runs Nicola Wealth Management and was the 2011 winner of the Ernst & Young Entrepreneur of the Year Award for financial and professional services in the Pacific Region.

"Priorities are capital preservation, effective portfolio management, specialized advice, transparency of fees and statements, and independent investment advice," Nicola said, speaking to chartered financial analysts at the Edmonton CFA Society wealth management conference. "They're looking at planning, performance, integrity and they still want a one-on-one relationship.

"For every client, we have a personal written financial plan. The second thing we focus on is asset allocation, because the majority of people have it wrong. And finally, we look at security selection and/or manager selection. Ninety per cent of results a client gets, on an after-tax basis, are from getting the first two steps done right."

He said the most trying time he's had in the investment industry was shifting from a "mutual fund dealer" platform to "portfolio management" in 1999.

"I had to shrink the firm from 22 people to 15 people because the others didn't see 'that vision,' they weren't willing to come off a commission-based approach."

With the current platform, the firm is fee-based, charging 1.25 per cent on a portfolio less than $1 million, down to 0.5 per cent for a portfolio greater than $4 million.

Handling investments for wealthy and ultra-wealthy families, he expects to have $2 billion in assets under management by year end.

Some firms direct clients toward only the company's investment products, or investments the company is underwriting, or have a deferred sales charge. But Nicola says his staff has a fiduciary responsibility, advising what's best for the client ahead of what's best for the company.

"If you want to be a great salesperson, be a Walmart greeter, but the only things on the shelves are every investment and every insurance product you can imagine. The Walmart greeter finds out what you want and takes you to where it is; you're not trying to take your narrow box of investments and drive it down somebody's throat."

He's a stickler about fees.

"In a perfect world, I see the investor paying their adviser directly, and the adviser is not receiving compensation from the product, or if they are, it's completely disclosed, and the clients are aware."

Investor demand is slowly shifting from commission-based fee structures to fee-based, based on size of portfolio assets, and fee-only, according to hourly rates or individual services provided.

Nicola also feels strongly about client investor statements.

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Wealthy look to real estate for big gains

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Some firms don't report performances. And some provide only the legal minimum information, such as listing only proceeds of shares or funds sold, and not the capital gains or losses.

"You've got to tell a person where they are right away: summary page, value of account, year-to-date rate of return, since-inception rate of return, asset allocation in dollars and percentage, historic rates of return, and cash flow.

"We do a complete fiscal report on non-registered accounts of clients, starting cost base to the ending cost base, all those things required to file a personal, corporate or trust tax return. Accountants we work with tell us these clients are saving up to $1,500 a year alone. It is, to us, a competitive advantage."

So, just what are the world's rich and perhaps famous investing in these days?

A Cap Gemini report showed that the wealthy don't keep more than one-third of their capital in equities, and they have at least 14 per cent of their assets in real estate, not including their homes.

"Right now you're buying commercial real estate in the U.S. that's 28 per cent less than it would have cost 12 years ago; that is not true in Canada. And the reason people make more money in real estate is that people behave better with real estate, because it's very hard to sell real estate in a depressed market. But you buy stocks in a behavioural market."

As for gold, Nicola quoted a Warren Buffett article comparing bullion versus "real investment" including infrastructure, private equity, real estate and publicly traded companies. He said you could either have the world's gold supply worth $9 trillion just sit there, or use it to buy all the farmland in the U.S. plus 16 Exxon Mobils, producing cash flow.

"I believe in gold as insurance. I look at it as catastrophe coverage, but we think cash flow is the driver behind our portfolios, net of fees."

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