

R E T H I N K T H E W A Y Y O U I N V E S T

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T H E F . D A N I E L S O N G R O U P
A S S A N T E F I N A N C I A L M A N A G E M E N T L T D .

Making the Winning Strategies Work

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Create an Investment Policy Statement

Co-ordinate Your Investment Plan with Your Life Plan

Ten Principles of Successful Investing

CONTENT INCLUDES

- ◆ Your Personal Road Map to Structure, and Success
- ◆ Money and Life Work Together
- ◆ Bringing the Details Together and Making It Work

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Create an Investment Policy Statement

YOUR PERSONAL ROAD MAP TO DISCIPLINE, STRUCTURE, AND SUCCESS

An investment policy statement (IPS) is a document that you and/or your advisor create to help keep you on track. It can be viewed as your personal road map to long-term investment planning. This document is a key supporting tool that can bring clarity, vision, and discipline to your investment process.

To understand the importance of the IPS, its purpose, and how it fits into your investment experience, we should take a moment to review the key principles to building better portfolios. These investment principles can be categorized under four themes:

Theme 1: Setting the Stage

Understand and become aware of the most common investment pitfalls

Recognize that there are many possible pitfalls that can lead you in the wrong direction. Learning to be aware of these pitfalls is half the battle to creating a successful investment experience. Steer clear of the hype and understand that emotions can lead you and your advisor off track.

Theme 2: The Winning Strategies

The three investment principles = winning strategies

- ◆ Invest in asset classes
- ◆ Diversify

- ◆ Recognize that risk drives return (stocks outperform bonds, value stocks outperform growth stocks, and small company stocks outperform large company stocks)

Theme 3: Choose Your Investment Tools Wisely

Execute the three investment principles with asset class investment tools

Asset class investment tools empower investors and advisors to build leading-edge asset allocation strategies.

Theme 4: Making the Winning Strategies Work

Create your personal investment policy statement (IPS) and complement it with financial-planning strategies.

Bring clarity and control to your investment experience by integrating your personal objectives and financial situation with the winning principles and themes.

An Investment Policy Statement Is All About You

An IPS is an investment management planning tool, a written plan that integrates your personal objectives and financial situation with the key investment principles and themes so that the investment strategies work for you. It provides the foundation for all your future investment decisions and should be considered your personal

“investment road map.” Developing an IPS can help you:

- ◆ identify your objectives and establish investment guidelines for achieving them;
- ◆ incorporate your investment time horizon and your personal wealth components into your investment strategies;
- ◆ clarify your risk tolerance and incorporate it into your investments;
- ◆ build an asset allocation that is right for you;
- ◆ establish realistic investment expectations;
- ◆ establish tax-efficient strategies; and finally
- ◆ lay the ground work for monitoring and controlling your future investment performance.

An IPS is a long-term written investment plan that will provide you with the discipline you need to overcome common investment pitfalls and execute the winning investment strategies. It will give you the confidence, comfort, and peace of mind that come from knowing that your investments mesh with your life.

The Details of an IPS

Figure 1 illustrates the different components that form an IPS. Developing and bringing each of these components to your IPS will require thought and, in some cases, in-depth analysis. The process of bringing these together, however, will ultimately make you a better investor.

Institutions, pension consultants, and financial advisors to the affluent have been developing and using investment policy statements for decades. Most experts consider the IPS to be an essential component of managing money for large pension plans. Today, many experts in the financial services



Figure 1: Investment Policy Statement

industry accept that an IPS is a key investment tool for private investors. Truth be told, if it is essential for large pension plans, one could easily make the case that individual investors have much more to gain from developing and implementing an IPS. Why is this? Simply put, relative to institutional pension plans, individuals have far more emotional attachments to their money and can benefit greatly from the discipline reinforced by the plan.

Figure 1 shows how an IPS pulls together the assorted variables in your personal equation that you need to take into account when planning your long-term financial strategy. You may choose to work with a qualified advisor to construct a customized IPS or create one on your own. But however you choose to create your investment policy statement, recognize that it represents a crucial road map for your personal investment success.

Co-ordinate Your Investment Plan With Your Life Plan

MONEY AND LIFE WORK TOGETHER

In the previous section we introduced the concept of planning tools and their importance in bringing all the pieces together so that the key principles will work for you. We discussed the importance of an investment policy statement (IPS) and showed how this written document can be instrumental in keeping your investment plan on track.

A personal financial plan is just as valuable as an IPS and both are planning tools that can help you and your family stay on track. While an IPS focuses exclusively on your investment and portfolio planning, a personal financial plan focuses on you as an individual—bringing all your financial and life goals together into one planning exercise.

Do you know when you want to retire? Do you know how much you should be saving for your children’s education, your retirement, or your dream home? What planning strategies are available to save taxes? Are the proper safety-net features in place? These are all financial planning questions that can be answered in a personal financial plan.

One Size Doesn’t Fit All

Everyone has different personal situations and distinctive goals and challenges, and no two financial plans look alike. There are so many things in life that set us apart and make us unique. We make important life decisions—to own a business or be an employee, to get married or remain single, to have children or not, to retire early or to continue to work as long as possible. When you add life’s many challenges (both pleasant and unpleasant) to

Table 1: The Six-Step Total Financial Planning Process

Step 1	Establish the client-planner relationship by clarifying the responsibilities of the planner and the client.
Step 2	Identify your personal goals and objectives by collecting and assessing all relevant financial data—assets and liabilities, tax returns, records of securities transactions, insurance policies, wills, and pension plans.
Step 3	Identify financial problems that can create barriers to your financial independence.
Step 4	Create a written plan structured to meet your needs without undue emphasis on purchasing specific investment products.
Step 5	Implement your personal financial plan to ensure that you reach your goals and objectives.
Step 6	Schedule a periodic review and revision of your plan to ensure that you achieve your goals.

your personal equation, you can see how financial planning can become an exercise in life planning.

According to the Financial Planners Standards Council, the professional planning practitioner should use the six-step total financial planning process, which is outlined in table 1.

Empowerment Comes From Control and Understanding

Embracing the financial planning process is an important exercise in striving to control your destiny. By integrating investment planning with life planning, you can significantly increase your odds of a successful investment experience. As the American politician Robert F. Bennett wrote: “Your life is the sum result of all the choices you

Table 2: Major Life-Planning Blocks

YOU & YOUR FAMILY BLOCK 1	YOUR BUSINESS BLOCK 2	INVESTING BLOCK 3	PHILANTHROPY BLOCK 4
Family	Valuations	Portfolio	Volunteer your time and expertise
Health	Buy/Sell	Asset classes	Charitable giving
Children	Lawyers	Risk mgmt.	Foundation
Dreams	Partnerships	IPS	Sponsorship
Savings and budget	Trusts		Scholarship
Retirement	Holding co.'s		
Estate planning	Estate freeze		
Special situations	Special situations		
Wills	Risk mgmt.		
Risk mgmt.			

make, both consciously and unconsciously. If you can control the process of choosing, you can take control of all aspects of your life. You can find the freedom that comes from being in charge of yourself.”

Take a moment to review table 2, which shows the major “life blocks” that form the *life puzzles* of the vast majority of Canadians. The first and third blocks make up the life puzzles of most Canadians. If you are a business owner or entrepreneur, your puzzle is composed of the first, second, and third blocks. Later in life, once you have fulfilled many of your responsibilities and free time is more abundant, you may consider adding the fourth block to your life puzzle.

How Do You Know If You Need A Financial Plan?

Many Canadians need some element of a financial plan, often at multiple stages in their lives.

Sometimes a thorough financial analysis of a specific situation within one of the life blocks in table 2 will be sufficient to make the necessary recommendations; at other times, a more in-depth review of all the blocks in your life puzzle will be more appropriate. The following questions may help you decide whether you need professional financial advice:

- ◆ Do you have the time to attend to your personal financial affairs?
- ◆ Are you confused about conflicting financial advice from several sources?
- ◆ Do you feel that you are paying too much tax?
- ◆ Do you feel that you can’t make ends meet?
- ◆ Do you feel that you can’t save any money?
- ◆ Has there been a recent change in your life that could affect your financial future, such as retirement, job loss, an inheritance, the sale or purchase of a business, an addition to your family, or the loss of your spouse?

The six-step total financial planning process will help you and your family organize your life blocks so that they mesh together and allow you to work towards achieving your personal goals. Investments and life should work together: a well-considered plan is crucial to ensure that your dreams become a financial viability.

Ten Principles of Successful Investing

BRINGING THE DETAILS TOGETHER AND MAKING IT WORK

Creating a winning investment experience can and should be a straightforward process. However, in today's fast-paced world—where much of the investment information is based on hype, organizational marketing, or media promotions—it isn't always obvious how to build a well-structured portfolio that fits with your family's financial planning objectives. The good news is that by increasing our knowledge all Canadians can have access to the *crème de la crème* of financial thought.

A single musician can never rival the listening experience created by a fully-integrated orchestra. In the same way, each individual principle in this investment guide is not enough—on its own—to enable you to invest your money successfully. Bringing them all together, however, will give you the concrete solutions to manage your money more effectively.

The main principles discussed in *The Empowered Investor* are summarized below. By implementing these into your own portfolio, you will become empowered—not only in your knowledge of how the markets work, but also in knowing how your investments can be managed.

1. Understand and be aware of the most common investment pitfalls.

Your emotions can have a negative impact on your investment results. Ignore market predictions; they are one of your main obstacles. Being aware of common investment pitfalls is half the battle.

2. Learn to recognize conflicts of interest in the financial services industry.

By understanding how the business works, you will be able to take better care of your money.

3. Asset class investing is a better way to invest.

Asset class investing is the most important step in taking control of your investments and has a bigger impact on your portfolio than market timing or stock picking.

4. Diversify. Understand the difference between good diversification and bad diversification.

A diversified portfolio should include: bonds, real estate investment trusts, Canadian stocks, Canadian value stocks, Canadian small cap stocks, U.S. large cap stocks, U.S. value stocks, U.S. small cap stocks, international value stocks, international small cap stocks, and emerging market stocks.

Most investors and many advisors misunderstand the concept of diversification. They believe that because they own fifteen stocks or ten mutual funds, they are diversified. Too much overlap equals bad diversification and improper diversification can be a recipe for disaster.

5. Discover and use the Fama/French 3-Factor Model when constructing and designing your portfolio.

- Stocks outperform bonds
- Value stocks outperform growth stocks

Ten Principles of Successful Investing

Knowledge = Control = Successful Investing

- Small company stocks outperform large company stocks

By knowing this, you can appropriately weigh the level of risk you are willing to undertake and, along with it, the expected level of return.

6. Execute your asset allocation with asset class investment tools.

All tools are not built the same. Build your portfolio and work with an independent advisor who is free to recommend the best tools in the market place (transparent, precise, tax-efficient, and flexible).

7. Recognize that costs matter.

Taxes, management fees, trading costs, and investment advisory fees have an impact on your long-term investment results. Know your costs of investing.

8. Write an investment policy statement (IPS).

A qualified, fee-based investment advisor can help you with this. An IPS will keep you within your specified risk parameters and greatly enhance your investment experience.

9. Co-ordinate and integrate your investment plan with financial-planning and life-planning issues.

Investments and life should work together; a well-considered plan is crucial to ensure that your dreams become financially viable.

10. Get on with your life.

By using some of the best long-term strategies in the marketplace, you will become more confident that your portfolio is reaching its full potential. This will bring you peace of mind, freeing you to focus on the things that are most important to you and your family.

The Origins of These Principles

I do not own the principles mentioned here: they are universal. They can be used by individuals managing modest RRSPs or by large institutions quarterbacking hundreds of millions of dollars and most of them will be important and relevant for decades to come.

You and Your Investments

Integrating the ten principles of successful investing into your investment experience will empower you. These principles, while interesting and worthwhile in and of themselves, become powerful only when merged into an overall financial strategy. Not only will you increase the odds that you will obtain better performance from your portfolio over the long term, but the side benefits are very real and very human.

The confidence, comfort, and peace of mind that come from knowing your investments have a track record and are working for your interests allows you to concentrate your energies and passions on the things that matter most: your family, your business, your retirement. I hope that you have enjoyed reading this white paper. Please feel free to direct any comments or suggestions to me as you continue on your journey to become *The Empowered Investor*.

T H E F . D A N I E L S O N G R O U P
A S S A N T E F I N A N C I A L M A N A G E M E N T L T D .

SOURCES & DISCLAIMER:

Making the Winning Strategies Work is a research white paper excerpted from the new and revised 2nd edition of the book *The Empowered Investor: A Guide to Building Better Portfolios*. © Keith Matthews 2007.

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TULETT, MATTHEWS & ASSOC. INC.:

Keith Matthews is a partner and portfolio manager at Tulett, Matthews & Associates Inc. Tulett, Matthews & Associates specializes in discretionary portfolio management services and wealth management solutions designed for Canadian investors who are serious about achieving their long-term investment goals. Our unique consultative approach ensures that we only work with clients for whom we can add real value to their pursuit of a successful investment experience.

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Frank Danielson, BEd, CFP

Since 1994, Frank Danielson has built a reputation for attentive, client-focused service and valued advice. He currently serves as personal CFO for a number of high net-worth individuals, families, and professionals. Frank assumes responsibility for coordinating and managing the evolving needs of each of his clients, from portfolio strategy to risk management, estate and trust planning to financial planning and modeling.

Born and raised in Nanaimo, Frank attended the University of Victoria and obtained his Bachelor of Education in Biological Sciences. After two years in the teaching profession, Frank decided to focus on his passion for finance and embarked on his career as a financial planner. Since then, he has worked exclusively through referrals from his clients and a select group of CAs and lawyers. Frank, his wife Petra, and young son Dylan live in the UBC area. In addition to serving on several community boards, Frank is a strong supporter of the “Raise a Reader” literacy program. In his spare time, Frank enjoys golf, fitness, photography and expanding his personal knowledge.

Our Approach

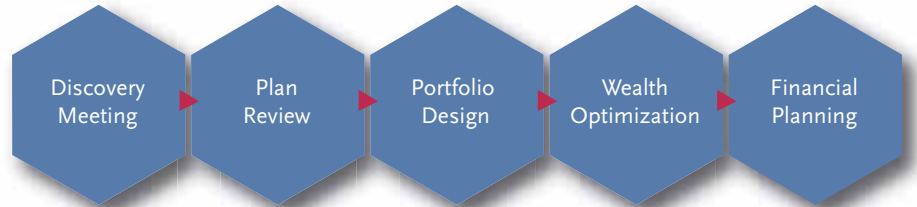
At The F. Danielson Group we are passionate about providing our clients with the highest level of wealth planning services through the creation of a trusting, long-term relationship. Our commitment to your financial success and well-being is reflected in our unique consultative approach and client-centered process.

To ensure we are consistently adding value to our clients’ overall financial plan we have developed our personal CFO process that continually aligns our ongoing advice and recommendations with your unique financial situation. Our consultative approach is based on a series of five meetings: discovery, planning review, portfolio design, opportunities, and implementation:

Discovery - discovery leads to clarity

The main objective of the Discovery Meeting is to learn more about your financial objectives, personal values, and key financial concerns. Together, we will also determine if there is a mutual fit and if we can add value.

We believe it is important to understand your financial personality, since human behaviour impacts every aspect of building your successful financial plan. We call this assessing your Financial DNA.



Plan Review - your financial roadmap

The main objective of our Plan Review phase is to confirm your financial objectives, then compare those objectives to your probability of achieving them. Most important, this meeting clearly reflects, in a written plan, your aspirations and creates the roadmap for achieving your goals.

Portfolio Design - implement

The main objective of our Portfolio Design phase is to review your unique investment objectives, liquidity needs, growth expectations, tolerance for risk, income requirements, investment time horizon, anticipated changes in lifestyle, tax considerations, and economic variables such as, inflation and market volatility.

These objectives will be reflected in your own Investment Policy Statement (IPS), which provides an account of your investment objectives and describes the strategies that we will employ to meet them.

Wealth Optimization - implementation leads to results

The main objective of the Wealth Optimization phase is to focus on wealth planning opportunities that will have the largest impact on your achieving your most important financial goals.

Using our Diagnostic Checklist (which covers nearly 100 tax, estate, corporate, and risk management opportunities), we ensure you are optimizing and protecting your overall wealth plan. Once the Checklist is complete, together we'll prioritize the results, then create an action plan that assigns realistic timelines for completion.

Financial Planning - implementation is not a “one time only” event

As your life evolves, so will your financial plan and investment portfolio. That is why we hold semi-annual meetings and conduct conference calls throughout the year to learn about the changes going on in your lives, monitor investment performance, and keep your overall wealth plan on track.

We would be pleased to discuss our process with you in person. Contact us at fdanielson@assante.com or by telephone at 604-638-0345.