PANEL OF EXPERTS

Question 1: What should a retail investor consider when looking at an institution's accountability measures?

Question 2: Considering portfolio diversification and the current economic climate, how can one mitigate risk when looking at alternative investments?

Question 3: When reviewing- a portfolio manager's fees, what should a retail investor consider?

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Recently, the banking sector has come under heavy scrutiny, leading to the majority of international banks becoming more transparent, to the advantage of the investor. Two of the most heavily watched figures are a bank's Tier 1 Capital Ratio and their credit rating. The higher the Tier 1 ratio the better—and it's often best to compare it to all other banking peers to get a good idea of where a firm stands in comparison to its competition. The safest banks in the world obviously have a high credit rating and a high Tier 1 Capital Ratio. This is an advantage in working with a large firm as these numbers and facts are relatively easy to find.

To acheive optimal diversification, a portfolio needs to include different asset classes of different countries, different currencies and alternative investments such as commodities, hedge funds, structured products and private equity. As these investments are complex and harder to access, it is instrumental to deal with a leader in the field who has global capabilities and a strong due diligence process.

The most important thing to establish is what sort of added value are you receiving for the fee you pay? Fees need to be discussed before a portfolio is implemented—this is essential in building a solid foundation for a long-term relationship. There needs to be total clarity as to what an investor is paying for. Investors should also ask about the hidden fees like forex spreads, and any investment product that is bought or sold with a spread as opposed to a transaction based fee.

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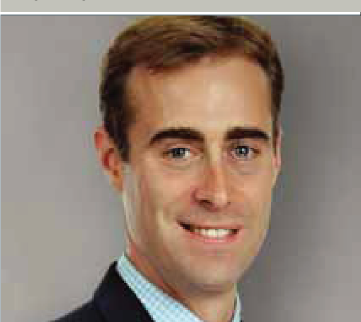
An investor should ensure that both the firm and the individual they are likely to entrust their assets to are in good standing with their regulator. In the case of investment counsellors this would be the Ontario Securities Commission. An investor should be comfortable that their assets are going to be held in custody at a substantial, reputable, recognized bank or other custodian.

To mitigate volatility it is important to diversify one's savings across various asset classes offering different risk profiles; some examples would include cash, bonds ,equities and real estate. A risk free investment such as a GIC currently offers a miniscule return after tax is deducted from the small interest payment. If inflation runs even at a modest two percent for each of the next 10 years , the holder of the GIC will have seen their purchasing power reduce by almost 20 percent over the period. The difficulty for some investors, is that in the current environment of ultra-low interest rates they are being driven further up the risk curve than they are naturally comfortable with.

Nobody works for nothing, but in the investment world it is sometimes not the case that "you get what you pay for". For example, a tailored portfolio managed by an investment counsellor will often carry a lower fee than a retail product such as a mutual fund.
As with any purchase of a service, the investor should carefully consider the overall value proposition. Ask your prospective advisor to lay out clearly, in writing, how they will be compensated for their work, and what the total extent of that compensation will be annually in dollar terms. Be aware of the tax deductibility available on certain investment counselling fees.



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Investors should look for an investment firm that they can trust—one that has integrity, a solid reputation, a broad investment platform, and a history of stability. Investment firms should provide clear, transparent performance reporting along with excellent communication and service.

Diversification, focus and active management are critical for preserving and growing capital - particularly in periods of high market volatility. However, because alternative asset classes offer attractive return profiles that vary from traditional asset classes, they have the ability to lower total portfolio risk while enhancing returns. Nonetheless, since alternative investments often come with unique risks (such as reduced liquidity) investors should speak with a trusted advisor before investing.

Investment management fees should be competitive and transparent. Investors should consider the breadth of the manager's investment platform and the level of service they expect to receive relative to the fees paid. The lowest cost option may not necessarily be the best. Investors should be willing to pay a reasonable fee in exchange for the advice and services they expect to receive.