

STRATEGY

Newly conservative investors pull on the reins

Stung by the recession, they want vehicles that preserve capital. But advisers say cautious investors risk losing out on growth opportunities and paying too much for capital-preserving vehicles

BY MARJO JOHNE

Earlier this year, Vancouver-based financial planner Odette Morin got a call from a client asking her to put all of his money into bonds – a complete reversal of his pre-recession investing attitude.

“When I got him as a client five years ago, he didn’t want any bonds,” recalls Ms. Morin, a certified financial planner and owner of YOU First Financial in Vancouver.

“But now he’s telling me, ‘Odette, I don’t care so much about returns, I just don’t want to lose money.’”

This formerly bond-averse client – who Ms. Morin managed to dissuade from becoming a 100-per-cent bonds investor – isn’t the only one to voice concerns about the need to focus on asset preservation rather than growth. A number of other clients are feeling the same way, Ms. Morin says.

“But this is really typical when you go through tough times like these,” she adds. “When markets go down, especially to the extent we’ve seen in the last year, people tend to be more conservative.”

And it isn’t only YOU First Financial clients who have turned ultra-conservative in the wake of the recession. An online survey conducted last month by the Toronto research firm the Gandalf Group found the majority – 55 per cent – of Canadian retail investors are more worried about falling behind with their investments than they are excited about getting ahead.

Slightly more than half also said they would choose to put their money in more secure investment vehicles, such as bonds, rather than in stocks.

“The recession really was a rude awakening for a lot of people who never thought they could lose money on their investments,” says Renee Talavera-Siao, a Toronto financial adviser. “Depending on how they were structured, some portfolios went down during the recession by as much as 40 to 50 per cent if they were in a lot of equities while balanced portfolios went down about 20 per cent.”

“Now what’s become important to many investors is just preserving their capital because they’re realizing they don’t want any volatility.”

While many of these concerned investors fall into the



Ted Rechtshaffen of TriDelta Financial cites three reasons why investors should be more confident today: the full economic recovery of China and India, the upward trend in U.S. and Canadian housing markets, and the money scared investors pulled out during the recession that will likely be put back into the markets. ANNE-MARIE JACKSON FOR THE GLOBE AND MAIL

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Odette Morin, Vancouver-based certified financial planner

older and wealthier group – those with more money to lose and less time to wait for their investments to recover and grow – financial planning experts say many younger investors have also switched to preservation mode.

“Unless they’ve been investing for a long time, a lot of investors in their 30s and 40s have never seen market downturns and don’t realize there are market cycles,” Ms. Talavera-Siao says.

While she doesn’t want to say “I told you so,” Ms. Talavera-Siao says some investors who were taking too many risks in pursuit of high returns were due for a reality check, and the recession dealt them one.

But while she advocates prudent investing, Ms. Talavera-Siao says Canadians who have become too cautious with their money risk losing out on growth opportunities and paying too much for the privilege of putting their money in capital-preserving vehicles.

Ted Rechtshaffen, president and CEO of TriDelta Financial, agrees. He cites three reasons why investors should be more confident today: the full-speed-ahead economic recov-

ery of China and India, the upward trend in U.S. and Canadian housing markets, and the money scared investors pulled out during the recession that will likely be put back into the market in the months ahead.

“I think today is a fantastic time to be investing,” he says. “And for investors who are concerned about preserving their assets, there are ways to accomplish this objective without sacrificing growth.”

One way is by investing in preferred shares, which are considered stocks but are less risky than common stocks and pay dividends. Mr. Rechtshaffen says preferred shares are not only likely to yield higher returns than bonds or guaranteed investment certificates, but dividends are also taxed significantly less than interest income. “This would be good for someone investing money outside an RRSP,” he says.

Investing within an insurance policy could also be a good move for conservative investors. Investments tied to an insurance policy are typically tax sheltered and come with a guarantee to pay at least a certain percentage of interest, Mr.

Rechtshaffen says. “The insurance component doesn’t have to be significant,” he explains. “But what’s important is the tax sheltered growth and the contractually guaranteed rate of return.”

When it comes to bonds, Ms. Morin in Vancouver says corporate bonds today provide investors a better place to park their money than government bonds, which are paying much lower returns. For those who think GICs are a loss-proof investment, Ms. Morin points out that at typical returns of only one to two per cent and inflation running at three per cent, these investors are actually falling behind.

“If clients are really against any type of fluctuating investment, then I would discuss linked notes or segregated funds, which guarantee the principle and might give you one to two per cent return upfront guaranteed and up to 10 per cent in the long term,” she says. “So the investor has peace of mind because they can’t lose at all.”

But that peace of mind does come at a cost. Segregated funds, for instance, charge a management expense ratio –

which covers fund expenses such as administrative fees and is calculated as a percentage of the fund’s assets – equivalent to about one-and-a-half times the MERs for regular investment funds.

While there are many options available to today’s conservative investors, financial planners say a diversified balanced portfolio remains the best strategy for them – and all other investors.

The asset distribution would depend on an investor’s financial goals and risk tolerance, Ms. Morin says. “But generally, you should have some bonds, some stocks. It may be vanilla and boring, but it works.”

Ms. Talavera-Siao points to investment funds that automatically buy and sell assets to ensure portfolios stay true to the original asset allocation set by the investor.

“The important thing is to have the proper asset allocation and to choose the right investments that suit your risk profile and meet your goals,” she says. “If you do this, then you’re covered in any market and you can survive in any recession.”

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