ETF perspectives: macro and micro

- **What's next – the international view**
- **Why I do and don't use ETFs**

What's next—the international view
Kendra Thompson, Head of Wealth Management, North America, Accenture

07:45 Kendra: My name's Kendra Thompson, I run Accenture's North American wealth management practice. We focus on the future of advice, what will investors pay for, and how will incumbents deliver that at scale. I spend a lot of time with advisors, I spend a lot of time with investors, I spend about 85% of my time in the US, but I live in Toronto, so it's always nice for me to be here and talk to the folks in the industry here. I'm going to talk about product today which breaks a bit of a paradigm.

08:14 Normally when I come to conferences the first thing I say is let's not talk about product. But given the theme of this conference, and given what you guys are here to learn, I put a little bit of a different spin on the research that I do, and in the bio and at the end of this presentation you can get access to all of that research. Fundamentally what I'm interested in is what matters to Canadian investors.

08:37 And how all of you can do a great job meeting those Canadian investor's needs, and how ETFs are a building block of delivering that. So let's get into it. We're going to save some time for Q&A as well. Here are some July numbers. ETFs are growing. That's the point. I think the thing that's interesting to understand here is the trajectory and the pace of growth just continues to come. I don't think this is news for any of you. If it is, yay, that's your first tick.

09:14 But what we really see is concerted interested and concerted flows, and that is not going to change, we don't see any reason to believe it will. Why? What's underpinning this? As we shift models on the advice side we need the building blocks of that advice to shift too so that people can make money delivering advice. What you ultimately see in the advance of ETFs is as low cost models, whether those be direct to consumer or delivered through advisors, continue to proliferate,

09:50 you're going to continue to see a demand for building blocks that are much lower cost, much more simpler to explain. Let's be clear, most investors would not pat us on the back for performance. In fact, the average Canadian investor has been overfeed and underserved as it relates to performance in Canada, and there's a huge amount of head space for delivering better on the promises we've made to them and their future.

10:17 So I think there's an opportunity here to move away from trading on the mechanics of product and move towards meeting investor families where they are and building relationships with them, being their partners in financial wellness, and using products to access advanced algorithms and indices that are much lower cost and must more efficient to investors.

10:42 This is what the US landscape looks like. I would expect similar in Canada. A coupe different names, and maybe RBC or a few of the Canadian banks will make it on the list, but what you're seeing is bigger is better, scale is part of the game. And it's important to understand that we are seeing a lot of entry, on both sides of the border, a lot of new funds, a lot of launches, we like to call it the mosh pit. Everyone's jumping in. Just jumping in.

11:17 But at the end of the day the folks that are actually making money and have sustained flows are a short list. So whether the list is 30 in Canada or 190 in the US, really most advisors need to pay attention to the top 10, unless there's a specific strategy or a specific niche they're trying to solve for. And the average advisors does not have time to cull through every single ETF and figure out which ones are the right fits.

11:47 Though I do encourage you go get to know these brands and get to know the emerging leaders in Canada so that you can make better use of your time and focus on serving your clients. When we talk in the US we talk about the concept of the peak. We certainly aren't close to a peak in Canada. But in the US what we're seeing is there's a whole bunch of funds coming, but really it's very difficult to distinguish between them, and many of them are not around for the long haul, or not scaling quickly.

12:22 There's only so many funds tracking the same indices that investors need. And both on the mutual fund side and on the ETF side we're seeing the beginning of a very dramatic rationalization of the portfolio. So as you think of the COs running asset management firms, many many many of them are looking to cull their product stack, not add more in. And we expect in Canada that that wave will come probably in the next 36 to 48 months. So what we're seeing in the US today will be here in the next three to four years.

12:58 So anybody who's embarking on a career in ETFs, or who is launching funds, just be aware that that's where everyone was in the US and now we're starting to see them pare back and get to the fundamentals, and the funds that are actually having the biggest impact. All those exotic funds, those really cool ones, the ones that take a little while to understand, we are not seeing them scale in the US. So whether it's socially responsible, female lead companies, whether it's access to new tech, all of those things are cool and worth understanding, but be careful not to spend a huge amount of time.

13:42 You're not going to get the kind of growth and performance, in fact there was a great Wall Street journal article on that yesterday. What you will see in Canada that's slightly different, across the biggest trends in the US we're going to see a slightly different reality in Canada. So we will see a growth in ETF providers. I don't know anybody who's not working on it, and you know, whether it's a me too product, which most of the Canadian banks we'll start with,

14:14 or whether it's US firms entering the market, you're going to see a lot of options. And that's good, options are good, but it takes a long time to get your head around each of the difference, and you really do want to pick partners that are going to be sustainable for your clients. We will see that trend here, it won't be as dramatic in the US, and the pullback won't be as dramatic as in the US. Just based on the market size. Most of the players are not going to make a huge bet on the Canadian market, they'll be pretty well researched by the time they enter.

14:45 Lower fees, we will not see as dramatic a push towards low fees in Canada as we have been and continued to see in the US. That does not mean that trend is not pervasive, and it will be massively impactful to the advice industry. The difference is here due to the saturation of the Canadian banks and their general ownership over the investor landscape we're not going to see it happen as aggressively, and certainly don't expect it to go quite as low.

15:14 That doesn't change the need for a fundamentally different cost profile for the industry, and it doesn't change the need for all of you in the advice space to be thinking about where the value really is and how to deliver that value in new and much more low cost ways. And the regulatory landscape in Canada, so I'm in the middle of working with a couple of the Canadian regulators trying to help them rationalize and think through the role of regulation and the construct of digital and hybrid advice.

15:48 I think we're about to see a massive shift in the way advice is regulated, and I think that's exciting. It's well overdue. But I also think it's going to look at lot different than it does in the US. So I think, when you guys are thinking about what's happening in the US and trying to bring it back to Canada, just remember we have a very complex regulatory framework. And until someone figures out what the role of the MFDA and IIROC will be in the construct of some of these new emerging advice models, we're not going to move quite as quickly in shifting and growing in this set.

16:24 So, one of the things that I don't think is talked about enough is just how many of these new funds are closing. So I like to think about it as two steps forward, one step back kind of thing. The number of funds closing there, and if you track that purple line across, just sort of shows you the net new funds.

16:48 Very disruptive to investors. So as advisors, I think very important to understand that the proportion of funds closing every year is increasing as well as the proportion being added in. This is US data, the Canadian data, again, won't look as dramatic because the market is smaller, and people are a lot more conservative before they launch products. You're not going to see RBC, for instance, launch products that they haven't researched because most of the money is going to their own clients.

17:21 But I do think it's important to understand that there is disruption in this space, and that is felt by investors on the bottom line. So what's not working? You saw the regulators in the US coming down pretty hard on some of the more complex ETFs. SEC cracked down on derivative usage, as an example. I think it's really important to note that you don't want to be bleeding edge as it relates to the underlying ETFs that you're recommending.

17:54 And until the regulators are clear on how they feel about some of the structures within the products I think it's important to be careful there. Anybody who is launching products with a high expense ratio is not surviving. This is the same for small funds. So again, we see fewer of them in Canada, but it is important to understand that all of these trends impact your clients, because if you go and lead with a product set that isn't going to be around, or is going to have issues, it's going to be disruptive for their own thing.

18:28 Everyone's talking about smart beta. It's really smart beta plus low cost. And when we think about smart beta this is how we think about it. I think it's 485 billion, 9 point something percent in the US is in smart beta right now. We see this as the frontier in where a lot of the growth is coming. Again, totally untapped in Canada, there's a huge opportunity. And I think this is an example where I do think it's worth getting really smart and understanding what this means and how it affects you.

19:10 I think there's an opportunity to find algorithms and product sets that could really matter to investors. Certainly as we work with the direct to consumer models we're trying to help them tap into some of this product set as well. When we talk to the teams creating ETFs, well, first of all, the teams are changing. You'll see on here, insurance firms, that's a group that don't typically get talked about a lot as we're talking about innovative product.

19:42 We are seeing innovation coming out of insurance firms and the asset management arms of insurance firms. We do think that it's important that there be innovation around new product, and it's not good enough to just launch a bunch of the index funds and call it a day. But again, it's got to be well researched, and it's got to be really tightly aligned to the core investment strategy. And this is where I think the debate has broken down between passive and active.

20:08 The idea that having a passive strategy means that you don't have a philosophy or you don't understand what you're doing and why I think is something that is maybe not been really well discussed in the media. I think there's a huge opportunity for advisors themselves, for those within the ETF space, and certainly for regulators and firms to understand that there are strategies that underpin these products, and those strategies are important, and they need to be understood by the end investors and their families.

20:40 Expensive funds have had their day. I think all of us have been hearing a lot about fee compression and the needs of investors to move away from high fee products. I think that that trend is not going anywhere, and it's important that all advisors realize that they need to be justifying their fee by delivering value. Whether their fee is a product fee or an advisory fee, whether you're looking at new fee models yourself, it's really important that you can assign value.

21:17 Advisor as access, advisor as expert, advisor as more powerful is gone, and you've got to get on the same side of the table as your clients, and youv'e got to be able to explain what they're paying for. And we shouldn't be waiting for regulators to tell us that we need to make that conversation easier, and the same is true by the way for the product partners that we select. So why do I care about ETFs? I see them as an underpinning or building block of what's coming next in advice. And I really encourage everyone to think about them that way as well.

21:57 It is not important that your clients wake up every day and go it's al about that ETF. In fact there's almost no one I can think of that wakes up and says I really, I'm so happy about that ETF in my portfolio. And that’s the way it should be. They should care about their own future, their own family, their own legacy, their own retirement, and the building blocks that you provide to them as their professional partner should make the performance happen consistently, as expected, and as promised.

22:28 And that’s really why we believe ETFs are a fundamental building block, and why we think they are important. Rep as PM is on the down, and what’s coming is real, true, deep advisory relationships. Meeting client families where they are, providing advice across their whole life and their whole future, and that requires a fundamental difference in the way you spend your time.

22:55 We think getting access to the algorithms and product set with an ETF really help you do that. Pivot away from product and equity selection and move towards having much richer conversations with your clients, and really changing the value proposition you bring. We call that hybrid advice, and when I say hybrid advice I don’t mean robo with a little bit of human. What I mean is the future of advice. The decoupling of advice experiences from the underlying products that support those experiences,

23:27 and the delivering advice on demand at scale as clients want to consume it. For too long the industry has been focused on advice in very skinny channels, whether it’s a do it yourself channel or a private banking channel or any of those in between. I use the analogy of musical chairs. And you can think of any Canadian bank, or you can think of your own business. Almost every Canadian bank had a chair in play.

23:57 They had a mutual fund distribution in the branch, they had an asset manager, they had a direct trading arm, they had a financial planning channel, they have a full service advice channel, they had an investment council, right, and everyone running those channels defended their chair. They knew who their competitors were in Canada, they knew exactly what they were doing. And when the music stopped it was just who was on top of 20% of market share.

24:24 That game is gone. We are now down to three chairs. Investors under 750 invested, you can use a million, in the US they go as high as 2.5, 3 million. Direct investing, digitally lead models, virtual advice, semi dedicated advisors are rare, that is where the future of that Canadian investor value proposition will go. The second chair, which I hope is where you guys are all looking for, the sweet spot of high net worth, somewhere between 1 and 5, 2 to 10, in the US you’ll see mostly 5 to 15 million dollars invested.

25:04 Served by a dedicated or semi dedicated licensed professional in the construct of an advisory relationship. And then at the top you see a chair around the ultra high net worth, in Canada we use 10, 30, above. In the use it's usually 50 or 80 and above. Notice there's no crisp graduation point. It's not about start in this channel and move to that. It's really about your investor needs and demands.

25:27 The reality with musical chairs, if you've ever played it, you don't win by defending a chair that's been removed from the game. Ok. So if you used to be in an MFDA mutual fund business and you're still defending yourself by describing that box, you're out of the game. You don't win by taking two chairs and stacking them on top of each other.

25:52 So if you used to have in branch planning and you used to have an asset manager and you just kind of stack them on top of each other and said now this is our direct to consumer low cost advice, you're not going to win either. And people are not going to graduate between these channels in the way we have traditionally graduated them. Referrals are dead. Graduation is dead.

26:13 What you need to do is meet investors where they are, and deliver valuable advice to them. And that advice needs to go well beyond asset allocation and product selection. It needs to go to what they care about as individuals. I know many of you in this room are already delivering that. The value is there, and I see the ETFs and the product set that's emerging in Canada as really building that. As allowing you to focus on those relationships and experiences.

26:42 I also see that as we think about hybrid and how consumers will consume it, they will dial up and dial down the amount of advice they consume within a single relationship. Which means for those of you that are independent, you need to get access to robo. For those of you that are in a bank, you need to be partnering across those channels. Because consumers will value and want good advice, in fact, across all demographics, across all asset classes.

27:17 We see no down tick in the demand for advice. So you don't have to bury your head in the sand and be worried about the future. Everyone values advice. The challenge is on the paradigm on which we consume advice. They no longer want to consume the advice on your terms. It's not about wait until you're wealthy and then I'll give you access. It's not about pay me all the time even though sometimes the advice doesn't work out.

27:47 And it's not about you being more powerful than them. And what we're seeing emerge is a model that's much more flexible and much more investor focused. And the model is only profitable when we look at products like ETFs. So I'm going to stop there. This is my twitter feed, you're welcome to follow it, I do research and publish regularly, and I'd love to hear from you, I think we have a little bit of time for questions.

[applause]

28:19 Melissa: Thank you so much, Kendra, my name is Melissa Shin, I'm the editorial director for the investment properties of TC Media, and it's my pleasure to facilitate the Q&A. So what questions are out there? We have some runners with mics.

28:37 I'll start with a question. So you mentioned that referrals are dead. What did you mean by that?

Sub: The idea that you own a client relationship, and you then refer them to someone else is what I'm challenging. What's emerging is this construct of client centric solutioning, which means that the people, the experts, the intermediaries, the connectors that matter to a client can come together in solution for a client without having multiple relationships.

29:10 It's extremely important to understand that when you know a client they expect you to know them and treat them like you know them. And if, as an example, you're in a banking channel and you have a private bank, or a commercial bank, and one day you're like, oh, you're selling your business, let me refer you to this guy over there, and then you never hear anything about it, or worse, you profit from that referral, clients find that jarring.

29:38 So what I'm talking about is the idea of solutioning for the client family versus thinking of them as accounts or relationships that you own and you can trade on. It's about democratizing and empowering the client, versus how we have traditionally thought about them as an industry, which is that we are the powerful, we own them, and we do for them as they need. Or we see they need.

Melissa: We have a question over here.

30:07 Audience: Hi, good morning. Sort of two questions wrapped in. So you get to see a lot of the industry, you get sort of crystal ball gazing into what comes. What sort of key advice would you have for, firstly, someone in the first five years of their career, what's the big lane change they've got to make and what advice, secondly, would you give to someone who was five years away from succession in order to preserve the value of that practice as they begin to work on an exit strategy?

30:35 Kendra: Yeah. So I'm going to start with the second part, because advisor succession is a personal passion of mine. And I personally believe that most of the Canadian banks will tie their most disruptive change to the massive advisor boomer succession that's coming. So for advisors that are within seven years of retirement I would say that the paradigms around monetizing your book are about to change, and I think that if you're not within the top 25% of performers you should not expect that the monetization that was there for the guys that retired 15 years ago will be there in the future.

31:21 I would be looking at controlling my own retirement and figuring out how to find the right home and fit for my clients. Unfortunately in Canada the options are more limited, in the US what you're seeing is a massive move to the RA model in order to monetize books in advance of retirement. I am working with IIROC and other regulators to create a regulatory framework that makes that easier to do in Canada, and creates more value in the books.

31:55 But ultimately I think that there is a succession issue ahead of us, and anyone who's just assuming that they're going to get a cheque or they're going to get a rookie or they're going to get something should be waking up, and they should be planning aggressively. I'd be looking to retire in the next three years instead of the next seven if I was in that group. For rookies I think the advice industry is super exciting. We see fewer and fewer entering traditional models and that's good, because those models are less sustainable.

32:27 But I do think that understanding what, how to have rich advice conversations, creating a much more digitally enabled advice relationship with clients, which does not mean having no direct relationship or in person relationship. But does mean embracing technology that helps you have better certainty of outcome and more scalable conversations with clients.

32:50 And the platforms that are emerging in the advisor space are actually really exciting. I think it's a killer industry, and I think there's a lot of reasons to be interested in it. But those of us that have grown up in the industry have spent a little bit too much time defending the barricade, and I think those entering the industry should be careful not to take their coaching and advice from people who are defending models that are not sustainable.

33:10 Audience: Hi Kendra

Sub: Oh, your voice didn't match you. Where did that come from? Ok.

Bernadette: Hi Kendra, my name is Bernadette, I lead business development for Smart Money Invest, a hybrid B2B robo advisor, and I'm just curious about your opinion with regard to the optimum operating model for a robo and an independent wealth management company.

33:40 Kendra: Ok. So I see robo as a building block, not a channel. And I think it's important to understand that the industry has focused on a sort of binary debate, so robo versus human, or self directed versus advised. And what I'm trying to communicate is that is not the debate. Those are all building blocks of delivering hybrid at scale. So what you see in market today is like the proof of concept or the first step.

34:11 And I think of a firm like yours, which I don't know well, or the robo or hybrid offerings coming out of the bigger players, they all have sort of five to eight year investment plans, and what they start with and where they're going are fundamentally different. So I think it's important to understand that by focusing on younger, less wealthy investors, that doesn't mean that's where they'll remain, it just means that that was the least uncomfortable place to start.

34:40 By focusing on net new capability add, ie doing things humans can't do, or doing things that are easy to replicate by humans, that kind of net new capability add, that's not where they're going to stop, that's just what they started with. We've too much thought about it as a channel, and instead what I would encourage is to think about it as a building block. The operating model that's going to work is a fundamentally decoupled model.

35:08 Where you have access to experts of all different ilk and license profiles, and robust technology that can be delivered not just to consumers but to intermediaries and other relationship owners. And bundled and brought together for a profit. So when we think about like what JPMC is doing, when we think about what the market leaders are going to do, they will componentize their operating model and figure out how to deliver it on demand to customers.

35:40 Most of the independent direct to consumer players will become vendors. We've spent too much time thinking of a firm like yours as a direct threat, and I see you more as an innovator that will likely be consumed by the ecosystem. And certainly that's what we're seeing play out in the US, and that's what I would expect to see here. But I think ultimately all of us in the advice industry need to wake up and look around.

36:07 Any source of innovation around the customer experience or around the cost footprint should be aggressively embraced, right. We do not need to wait around for We Chat to enter Canada and show us that consumers do not want to pay what we've been charging them. We have the opportunity to innovate on our own industry. And certainly I think the fact that you guys are in this room shows that you're thinking about your value proposition, and you're thinking about the advice you give in an innovative way.

36:52 Audience: So two questions. Following up on what you were just saying, is most of the services that robo is delivering today going to become like a We Chat, like a Gmail type of a service?

Kendra: Yeah. It's simple asset allocation, product selection, basic risk profile. There's nothing sexier and exciting about what basic robo can do. That's why I'm saying, don't think of them as a channel, imagine that capability scaling more robust advice conversations, and think about that capability in the hand of a DS advisor instead of in a direct to consumer. That's the future of the industry.

37:18 Audience: The second question is on human advisors today. Fee on AUM is predominantly the pricing model. How is that going to evolve over time?

Kendra: Yeah, that's actually a really good question, and there's a like a whole bunch of debate going on. Obviously there's, revenue today versus revenue tomorrow conversations, and if I'm the CEO of any of the big Canadian banks I'm very careful around this.

37:42 But what you need to know is that in order to meet investors where they want to be we need more flexible ways to make money. Some of the regulators are limiting us and some of the, you know, the quarterly earnings needs are limiting us right now. But what I would suspect are subscription models, outcome oriented models, pay by the drink models, immersive experience models. So think about it like an executive physical.

38:10 I mean, you have a doctor, but you go maybe once a year, once every five years, and you go and you have a full executive physical. Imagine what that looks like in the advice space. Right now we don't have the right regulatory framework to allow that, but certainly the pressure of the investor and the pressure of the industry indicates that those things will emerge.

38:22 And certainly in the US we're seeing a lot more creative models. I think that if you can make money along with your clients, and you can make money on the things they value, you have a bright future. I think the part that I would counsel against is defending fees or charging fees in blanket ways. Because we see the next generations of investors, and I'm not just talking about millennials, I'm talking about gen X as well, they're not as interested in paying all the times for things that they don't consumer all the time.

39:03		And they're much more interested in seeing their financial advisor as part of a suite of experts in their life. And we need to get on the same side of the table as them and be incented in the same way as them.

Why I do and don't use ETFs

Moderator: Andrew Clee, CFA, CMT, Vice President, Exchange Traded Funds, Fidelity Canada;
Panelists:
Linda Shick, CIM, Senior Vice President & Portfolio Manager, Family Wealth Counsel Advisory Group, Raymond James;
Kurt Rosentreter, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, Senior Financial Advisor and Associate Portfolio Manager, Manulife Securities

40:00	Andrew:	We have two financial advisors here, and we're really trying to accomplish two things. The practical use of ETFs, so we're going to do it from a business aspect, and then second we're going to focus on the portfolio management aspect, so why are we getting into these products. So I'm joined today by Linda Shick, SVP and portfolio manager, Raymond James Limited. Linda and I have worked together for a number of years now, I greatly admire her practice, she is involved in a lot of philanthropy, including St. Felix board of directors.
40:30		Kurt Rosentreter, senior financial advisor, portfolio manager at Manulife securities. He's a bestselling author, so check your apps, they've got some great bios on there, great practices they're running. So let's get right into the weeds. We've seen from the previous presentation that ETFs are growing at quite a rapid pace. But what's behind that growth, we've only seen about an 8% adoption rate according to an investment executive study amongst financial advisors, so let's get into the weeds, you both use ETFs, but I think it's best to start with describing your practice a little bit, so why don't you start, Linda.
41:02	Linda:	I think this is a great business. What better business is there to be in where we can actually help clients sold their problems, and realize their dreams, don't you think. It's just a great time, it's a great time to be in this business. We run primarily a fee based business. We run a discretionary practice, and we run traditional accounts. Clients do sometimes like to chat to us about the day to day trades. But it is all fee based.
41:32		And all our recommendations are the same, whether they're discretionary or not discretionary. Our core investment philosophy is to make sure that clients' cash flow is protected. IN that way we feel that clients can

mitigate the risk of the markets and stand the volatility. We're what we call asset allocators. So we design asset allocation strategies to meet clients' cash flow and also to make sure that their risk tolerance is accommodated.

42:04 We run asset allocation models such that the asset allocation is run to accommodate the asset mix for the client, as well as it signals for us to rebalance our portfolios. So in other words, we rebalance as markets move from one way to the next, we do our rebalancing at that time as opposed to on a time sort of basis.

Andrew: That's great. Kurt, describe yours.

42:32 Kurt: So my practice, you guys, is a team of nine people. We've positioned ourselves as the family CFO term and create a value proposition around financial planning, investment management, and proactive communication. Practice is national, I'd hope to be a few years up to a billion dollars under management. Positioned at an independent brokerage because I like the aspect of being able to say to people we can sell anything in the world.

43:04 The portfolio management licensing is also accompanied by we do just as much non discretionary, to be able to say we can offer any kind of service, any kind of product, any time, but really secondary to the value relationship based on planning and goals. We charge fees in five different ways. We do hourly rate work, we do flat fee work, we do commission based accounts, we do asset based accounts, and we do blended fee relationships that really builds in Kendra's comment a few minutes ago, you know,

43:32 to say not everybody wants to be charged all the time. I've been in the business 20 years, the practice has grown rapidly along that period of time. 20 years ago I was probably 80% mutual funds, was always fee based from the beginning. The challenge I had 20 years ago was the industry wasn't ready for it, and technological platforms couldn't accommodate fee based. Ten years ago I was probably 50% mutual funds.

43:58 Today I'm 5 to 10% mutual funds. And the business continues to grow rapidly, because basically we're vacuuming up assets that are in mutual funds. So there's a bit of my practice.

Andrew: Interesting. That's a big change over the last ten years.

Kurt: It just speaks to the evolution of the industry. But I would say the bigger change has been a focus on a value proposition that's not defined by what advisors want to sell, instead coming at it from what clients want. And they're different today than they were.

44:30 Andrew: So from a business side you're both fee based, you have a number of way of charging, was that the primary drive to the ETF business, or was it a lack of performance relative mutual funds or was it client demand? Can you enhance that conversation a little bit? Start with you, Kurt.

Kurt: The client demand aspect of lower cost and ETFs is overblown in the media. A small number of people are plugged into the low cost aspect of investing, but you can't ignore it, because it matters, and it matters a lot. The only true natural drags on investment performance are fees and taxes. But the step into the product world, and what you use in the portfolio, what we've done is simply said we don't want to play favourites.

45:12 The clients don't want us to play favourites. When you put yourself in their shoes they want consistently good investment results and they don't want to be told it's got to be in a specific kind of product. And much like Kendra said, if you're still kind of singing that song of I'm selling mutual funds and here's 19 for your account, it's only a matter of time until somebody else, who can offer everything out there that's got all the licenses finds your most affluent clients and takes them away.

45:37 I think what we've done is become a platform of neutrality that can offer all product choices of which costing is a variable, along with a lot of other variables, and that's worked well.

Linda: I agree. We run our businesses fiduciary, so it behooves us to look at the most cost efficient vehicle to put in the portfolio that we believe will attain what it's supposed to do in the overall portfolio. I agree with Kurt in that the media really overblows the costs of advice, and I think clients are prepared to pay some costs for advice as long as they're perceiving value.

46:15 Clients sometimes come to me, new clients, right from the getgo, and they're just like, I don't buy mutual funds. And that's kind of where the conversations opens, and we typically turn that advice quickly into we're not product sellers, we're value advice providers. So it is, but the cost of the overall value of advice is important as it does drag down the portfolio.

46:41 So you want to make sure your portfolios are constructed to achieve goals, and then clients won't worry about the cost of that.

Andrew: That's fair. And then when we talk about product and cost there's really two areas, equity and fixed income. Do you find that you're gravitating towards ETFs more so on the fixed income space or the equity space or vice versa? Why don't we start with you, Linda.

47:04 Linda: We do use ETFs substantially in the fixed income space, and that's, excuse me, just a product of actually where the markets have gone in the fixed income space over time. It's very very difficult to access inventory in fixed income, in any dealer's inventory box. It's tough to get inventory, it's tough to get access to global markets. So we look to the fixed income space to actually access those markets. As portfolio manager as well, fixed income ETFs helps us with the efficiency of actually managing the trading of the book. We do use active fixed income ETFs as well as passive ETFs, particularly in the preferred income space.

47:51 We find there's very very good ETFs to accomplish what we want to obtain in that space.

Kurt: We use predominantly ETFs on the equity side. A sprinkling of them on the fixed income side, again, coming at it from a client perspective, trying to explain the volatility on fixed income to somebody who has a basic knowledge of investing can be a lot harder than buying them a GIC. So coming at it practically, building blocks.

48:22 For someone who wants a bit more aggressive aspect on the fixed income side we'll use both fixed income ETFs as well as fixed income mutual funds.

Andrew: That's fair, and I think the dynamic in fixed income changes, if you think back five years ago, ten years ago, you get five duration, 5% coupon, in ETF land, ETFs don't mature. So what we've seen lately on aggregate bonds, you're taking about seven and a half years interest rate risk but you're only clipping a 3% coupon, so when rates go higher those are a losing proposition territory, so that's tough.

48:47 Kurt: But I'll tell you one thing we've done that's a bit different from what you see out there is you heard me say we do five different fee options. So we do a lot of commission based fixed income. And a lot of individual bonds or term deposits, and here's why, is, you know, with mutual funds charging MERs of 1 to 2% on fixed income, where a provincial bond yield is 1 to 2%, you know, you're creating a proposition where, unless there's capital gain.

49:15 So without getting too technical, keeping it simple. You know, we like to look at the cost of everything and relate it to what they're getting.

Andrew: That’s a fair point. And with yields so low by the time the desk takes

Kurt: I could make a lot more money throwing it all into fixed income the way most of Canada’s top money managers do, and all in one pricing. We don’t do that.

49:37 Andrew: So how do you have this conversation with your clients? I guess they’re most familiar with mutual fund business, ETF is still pretty nascent industry, when you see the Manulife campaign, for example, it’s what is an ETF. How do you position these with your clients when they’re coming in for those meetings?

49:52 Linda: As our business model is based on asset allocation we explain to our clients and make sure that they understand our value is designing the asset allocation to achieve their goals. If we decide that this particular portfolio for this client is served by adding ETFs in whatever sleeve it is, then we make sure that the clients do understand the risk of the investment strategy and the ETF.

50:22 We speak to them about how the ETFs are structured, maybe they have an active management component, maybe they’re a smart beta type of ETF. So we explain to them how those strategies work, and really at the end of the day what that’s going to get for them in terms of the accomplishment of their goals. We do explain that ETFs in almost any space don’t have guarantees, so they do go up and down with the markets.

50:51 There are risks in ETFs, and we make sure that clients do understand that. And we look to say to them that at the end of the day we rebalance these ETFs, or whatever the investments are involved in to continue on their path of goal realization.

Kurt: What was the question again?

Andrew: How do you explain to a client that’s new to the space. So they come in, they’re used to seeing expensive mutual funds, you’re explaining the evolution of ETs, how do you have that conversation?

51:21 Kurt: You’re right, and it’s been a busy part of the practice over the last ten years as they’ve come to be. I’d still say the vast majority of people haven’t heard much about them. But it’s changing, and it’s changing quickly. So the way we would come at the product choice side, particularly on the equity space, and we’ll give them three choices, individual stocks as well.

51:38 So you’ve come at it from all the different criteria that make up the three channels, and say pros and cons of mutual funds, pros and cons of ETFs, pros and cons of individual stocks. And what you find is that when you come at ETFs versus mutual funds that the cost becomes a factor, because we’ve all seen the research in the marketplace that shows how many mutual funds struggle to beat core ETFs or core indexing.

52:07 So when you come at it from best performance perspective, on some asset classes, or some geographical mandates, ETFs definitely warrant a place in the portfolio. When you compare it against individual stocks and bonds, because a lot of people, particularly affluent clients, have been historically in more stocks and bonds, if you want to win them over to ETFs you can do the same thing, but maybe you change the focus to a more risk based focus, and say how many of your stocks have outperformed a broader index.

52:33 We’ll literally rank them against the stocks in their portfolio and show that 30, 40, 50% of their stocks can’t keep up with the S&P or the TSX. The cost side of it, you know, and you think about stocks, arguably they’re the cheapest, mutual funds are the more expensive, we don’t sell low cost. I think if you’re selling low cost as an advisor you’ll never win that argument.

52:54 And the way I like to say it to clients is, and I'm a chartered accountant, so I relate to fees in the days where I used to be a CA in public practices, you know, nobody wants the cheapest accountant on the street. You want the one who will give you the best tax advice and you’re willing to pay more for that. Well, you know, financial advice should be the same way. None of us wants to be the cheapest or deserves to be the cheapest.

53:15 If you’re delivering good value, good advice, if you’re meeting them at night, during the week, in traffic, you deserve to get paid. I think we need to take a stand and be prepared, and it depends on where you are in your practice, to reject new opportunities if they’re not prepared to pay your fee. And I’m long there. I’m to the point where I’m firing people now, because you know, I think that it’s gone too far with a focus on cheap is best.

53:38 And even with ETFs, you know, when people roll in, to Linda’s point, people come in, say, I don’t want, I hate mutual funds, I just want ETFs. I’ll push back and say do you want lowest cost just because it’s lowest cost, or do you want the best value? Because ETFs don’t win in every mandate. Let’s look at them all objectively, factor cost in as a variable, and then make the best decisions for you. Acknowledging that we both need to come to a reasonable fee acceptance.

54:06 Andrew: I agree with that. I couple of years ago I did a study and found that this was very cyclical, in the sense that when volatility is increasing the opportunity set for active portfolio managers tends to be higher. You see the median manager outperform there. When volatility is low, so what we've seen over the last, call it 7, 8 years, tougher opportunity for an active PM, ETFs tend to shine in that type of environment.

54:26 Let's get into the weeds a little bit here, because this is an exciting topic. You see the media place active versus passive, I'm of the mindset that it's very much active and passive. So is there certain geographic asset classes, whether it's US equity, Canadian equity, emerging markets that you hone in on ETFs versus active mutual funds and vice versa? So I'll start with you, Linda.

54:48 Yes, we do. Depending on our investment vehicle process is to look at where the markets are at any given time. So in terms of active or passive types of strategies we look at the height of the markets in a given time period. We do look at ETF strategies to add value as performance enhancers if we feel that there is a market or geographical area that's undervalued, we would switch our asset allocation and include one of those types of vehicles in such a case.

55:20 We also do use managed money, so if we're looking at getting involved in unregulated markets we would look to an active money manager as there's not a lot of due diligence with an ETF, usually, with an ETF vehicle in something like that. And if markets are very very efficient and we're coming off a low market in a certain area we could look at a very passive ETF strategy to accommodate the portfolio.

55:52 So it's important, the value that we provide in this regard is to make sure that we're constantly monitoring what's going in in the market place, what's going in in the global marketplace, and making sure that what we have is the best vehicle for the amount of risk that we're willing to assume in this type of portfolio.

Andrew: I think that's a good way to look at it, at the end of the day. Take emerging markets. PM can have incredible informational advantage, not many else following those stocks. There's about 160 analysts that follow Apple. So the edge thre is quite significantly different. What about yourself, Kurt?

56:24 Kurt: I'll answer it a bit more strategically. We spend a lot of time on what thoughts we want to leave the client with as they walk out of the office. Getting in the weeds on tactical judgment calls on product type, they're not going to remember any of that. What I want to tell them in the meeting is, I can offer you any style, any product in the world, you have no need to go anywhere.

56:47 We all want to build moats around our clients so that no one will take them away. The fact that I can offer active and passive, number one, number two, that I'm coming at it non judgmentally, I'm looking at it with a filter of cost, performance, risk, tax efficiency, diversification, and a whole bunch of variables that are quality based on a practice that's developed over time,

57:10 simply allows me to say to them, we're going to put you in the right style, right type, active versus passive. So when you're reading Rob Carrick in the Globe and Mail saying why aren't you in indexes, you're in indexes. Or if you want to be in something in the golf course that's much better, we can put you in something active. And the fact that we're not locking them in with old style fees and DSC type of voodoo, you know, give us the flexibility to change on the fly, much the way Linda is managing her practice.

57:38 I think it's really just coming at it and saying I'm on your side of the table, versus the old style mutual fund person that puts them in 17 funds and tells them every meeting why you need to stay in those 17 funds. We've changed the conversation, and it's worked very effectively.

Andrew: That's a great point. So you've moved from 80% mutual funds to about 10% mutual funds. Is that being driven by yourself philosophically or is that client? Because if you're offering everything to the client they have the choice of active, they have the choice of passive.

58:09 Sub: It's based on results. We go to every meeting with rate of return, we go to every meeting with total costs you paid last year. We go to every meetings with how many times you heard from us and what we did with financial planning last year. We have a value proposition formula on my website that we followed for a decade that has shifted the conversation from commoditized products to what are we doing for you and how are we achieving your goals. In the first meeting with new clients I'll ask them, when's the last time your advisor wrote down your goals, quantified them, and put timelines to them?

58:42 You know how many people in 20 year relationships say never? You're just making my job easier.

Andrew: That's a fair point. In terms of, let's talk about long term versus short term goals. Because every client has different goals, whether that's saving for a child's education, whether that's buying a house or funding retirement. Do you see a difference between the use of mutual funds for shorter term liabilities, or ETFs for shorter term liabilities, do you take that into consideration when you're building the portfolio? Start with you Linda.

59:14 Linda: Yes, we certainly do, because clients have different goals at different times. So it's very very important to be there to provide advice through all life phases, and that changes dramatically for each person and time to time. In terms of the vehicles that we use to help clients out, if a client has very low risk tolerance, or needs to have a high capital preservation objective on the portfolio, we would build a portfolio of bonds for something like that.

59:44 Because ETFs don't really have any guarantees, and the last thing you want to do is have a client who needs access to their capital be in a situation where the portfolio has gone down and you can't even raise the cash that they need. The other issue, the other way we don't typically use ETFs is for short term money. There's a lot of availability out now, these high interest savings accounts that are floating, in fact, so they offer fairly good yields for overnight liquidity, and it's very difficult to match that. And there's virtually no cost.

01:00:21 It's very difficult to match that, and they're virtually no cost. It's very difficult to match that in any type of vehicle. So for those particular goals we would look at building our own portfolio. As portfolio managers we don't use ETFs for Canadian stock, any type of Canadian stocks, because we do our own due diligence and we build our own models of stock portfolios along with ours strategists at Raymond James.

01:00:44 We do use the ETF space for virtually any other type of asset allocation beyond those particular two at this point in time.

Andrew: That's a great point, and it kind of comes down to the aspect of model portfolios versus customizing for the client. Coming from the broker dealer world and the head office side

Linda: At Raymond James.

Andrew: At Raymond James. There's a big push to having advisors use model portfolios, because A, risk oversight is easier, B, the trading of it is a lot easier. Can you weigh that debate?

01:01:16 Because I see the argument from both sides in terms of how to spend your guys' time and resources versus customizing down to the end client and being able to stay on top of all the product when you go through mass customizations. I'll start with you, Kurt.

01:01:28 Kurt: So I do a bit of both, but much more individual customization when you're building portfolios. To go back to the mutual fund question that you asked a moment ago, mutual funds still, the unitization for mutual funds is still handy for things like RESP packs. Where small dollar amounts, or people just starting out. With that said, there are more model portfolios now for smaller accounts.

01:01:52 Particularly as the dealers get more sophisticated in technology, and can household them even under the fee umbrella for the broader family. So there's a lot changing still that can help us be more efficient. One of the things that I've struggled with as you build a bigger and bigger practice, you know, I'm up to an inner team of nine people now, which is a lot of people. So you look for efficiencies.

01:02:14 And one of the moves to portfolio management has really helped that in dealing with some of the inner workings of how you manager your practice and be able to, you know, deal with a lot of people at once. The model portfolio thing though, for larger clients, where arguable wrap accounts, and seg wrap account have been around, they've been at the banks for 20 years already.

01:02:33 And a lot of advisors have moved their books in to manage money that way. I tend to push back against that, because what I tend to see over and over again is duplication. So they'll put the same mandate in four different accounts, whether it's registered or non registered, which isn't always tax effective, which is the accountant in me talking. And so I'm careful with that type of approach. I also see a lot of the custom portfolios that are built will have significant Canadian weighting, or overseas weighting, where the action has been in the US,

01:03:03 or it's been in technology, so how far are you prepared to accept inferior performance to be compliance with the risk from the head office. So lots of sensitivities, but again, I'm just sitting it in the client's perspective and saying, ok, I want, you know, Ideally consistently good returns, and with a bit of education, you know, you figure out what makes the most sense for them while also managing your practice needs. It's a little bit of everything.

01:03:28 I agree. And yourself?

Linda: We do build models, not company based models, but we do build models in general for different types of asset mixes. However, as I said at the beginning, each client's personal asset allocation is set for them because they may not all fit into one type of model. So we make sure that there's customization in their own portfolio, because their goals might be different. So the risk tolerances might be similar across various spectrums, but their own personal goals have to be accomplished by the portfolio.

01:04:11 So for example, if they are going to be buying a house in the short term, then we would have a much higher fixed income weighting or cash weighting that would fall outside our model. So you have to tailor it to individual clients, because if not then to me that is sort of that robo advisor where there is no customization, you’re stuck in a model and there’s no flexibility. And clients are dynamic, changing people.

01:04:38 We have to be flexible to accommodate that. And I agree with Kurt that the wrap programs and these types of vehicles, they tend to be a lot more costly, and I think you have to look into those very carefully to make sure that they are appropriate for your clients, and particularly because a lot of the cost is based on the fixed income sleeve that actually doesn’t really deliver enough performance to even cover the cost.

Andrew: I think that’s a fair statement.

01:05:10 Kurt: Can I say one more thing? I think, you can be very successful as an advisor in many ways. But the way I’ve come at it is tools in the toolkit. And we’re talking about how we’re using specific products in the marketplace, which is great. But I think the first question to ask yourself is are you positioned a dealer that has all the tools. You know, do you have a wrap account, do you have fee based, do you have a bond book of business, do you have stock research, do you have financial planning tools.

01:05:37 And do you have enough control over all of that to build a vale proposition that, you know, you want to then present to client opportunities. And I think that’s your starting point as you look to the future if you’re going to be in the industry another twenty years. Now, the good news is, most of the dealers in the country have long got the message too, and they’ve also built all the tools in the toolkit, but not all of them.

01:05:56 And I think that’s where I would start the conversation of deciding where you want to be, and the licensing you’re going to need to ultimately deliver on all of this.

Andrew: So speaking of tools, 750 ETFs, Kendra just showed how much competition is in the space, how do you stay on top of the products?

Linda: Well we do certainly do a lot of research on various products, and we look a top down and bottom up approach, I’d say. So when we’re looking at tactical changes in the markets, which we monitor on, certainly on a daily basis, that we look to see if we want to make a tactical change then we'll drill down the screens to what sort of tactical change we want to make.

01:06:37 Once we look at that then we look at what we believe are the best providers to accomplish that sleeve. We also look at, from I'd say, almost a bottom up is that we do meet with our regular wholesalers of ETF providers to find out what's new and what's coming out so that we're aware of what's available should we want to make a move to that. Kendra spoke about a lot of these ETFs closing, and I do think you do have to be very careful that you don't jump on into sort of the flavour of the month ETF,

01:07:16 or the newest trend in ETFs, to be wary of those types of things, but to make sure that you're well researched and what's available out there, what's your opportunity, and as Kurt says, what do you have in your toolbox.

Kurt: So we all know that mutual fund companies have always been very good at keeping us educated about markets, products, new ideas. So coming from that grounding into the world of ETFs, where the costs are a lot leaner, the sales support is not the same, you have to do a lot more work. With that said, index investing is plain vanilla investing. You could arguably buy the S&P 500 from the lowest cost provider and not be too far off a pretty good portfolio.

01:08:05 So kind of putting all that together, it's been a challenge in keeping track of all the new ETFs, it's grown a lot even the last few years. But there's definitely an inside advantage that if you're an ETF provider now, and you have an existing relationship, if you've come from the mutual fund world, I would suggest one of the shortcomings of the new players in the industry, the Blackrock iShares, even the Vanguards, is there is a lack of enough support. I'll give you an example.

01:08:37 In March, I think it was this year, most of you would know that Blackrock iShares bought the old Claymore ETFs a number of years ago. And Claymore had an advisor series ETF that paid trailer commissions. Which was a good starting product for commission based accounts, if you didn't have fee based. And so we had used some of that. And so Blackrock earlier this year basically decided to eliminate that, almost instantly, with no runway, no one to two years to transition.

01:09:12 So I was probably left with 40, 50, 60 million dollars of assets where there was a trailer fee as of March 31st there no longer was. And these are individual stocks, right. So there's an example where there was no understanding, no appreciation of the dealer, of the advisor challenges, and I’m still bitter about that, you can probably tell. So I think that, you know, in the end when you look at the ETFs you’re going to look for the core groups and the basic asset classes and what they do right and put them side by side and let them compare on an after fee basis.

01:09:47 Lowest isn’t always best. You’ve got to factor in tracking error and all those other kinds of variables that go into this. The stories about style specific sector plays, all of that, you know, might have its role, but I think the more you chop up your portfolio, you know, the more you’re going into client meetings having to explain why you have another dud in the portfolio. So you want to be careful about how fancy you get with this stuff. But there’s a role probably for a lot of players, but a core group will be your goto ones.

01:10:15 Andrew: Yeah, I agree with that, and we’ve seen the evolution of niche type ETFs. Do you find your clients asking for those, because you look at some of the players in the space, we have a plant being legalized in this month and a couple weeks seeing tremendous growth in those ETF space. Is that client driven, or are you seeing much use of niche ETFs on the advisor side, or is that primarily happening in the discount channel?

01:10:36 Linda: For my personal practice our investment philosophy doesn’t really allow us to include those types of ETFs, those types of, hey, I wish I’d bought these stocks when they were penny stocks myself. But in terms of the risk that they may add to the portfolio, because we’re risk mitigators, we wouldn’t typically advice clients to invest in something like that. If clients want to do something like that we would gather some research for them, but it wouldn’t really form part of our core portfolio,

01:11:18 just because while sometimes these things work out and are really fantastic, a lot of times they just don’t. And our value is just on long term capital growth with a risk mitigation strategy overlay on it.

Kurt: We track a thousand stocks a day in the practice, using our own research and research of third parties.

Andrew: That’s it?

Kurt: Yeah. And marijuana, which you asked about, is now part of that. We made the active decision last year and it came out not to jump up in front of clients saying hey, come buy your marijuana stocks, because we know it would not be appropriate for some clients.

01:11:56 We’d rather decide they can come to us, we’ll be ready for them. We all know the likelihood of predicting success in that sector, and even blue chip stock, who would have thought General Electric would be like it is today 20 years ago. It's hard. So, specifically in that sector we've given them the choice. We can buy you a handful of stocks if you want, but you can also buy an ETF, pros and cons, it's a basket of 10 to 20 stocks.

01:12:21 And in the end, again, be a provider of choice, not say you can only do it this way with us. And that's worked very well on stocks, on mutual funds, on ETFs, in a way that I won't change. Because there's so many, what I would say single style money management approaches in Toronto, in Canada, whether it's the high net worth boutique investment portfolio managers that just do stocks and bonds on a discretionary fee based approach, to mutual fund advisors, to the insurance industry,

01:12:47 so if you come in as a provider of all, which is not a leap to get to with licensing or what you need to do in your practice, it just makes you more powerful, more able to compete on more levels.

Andrew: I think that's a great point. Going forward what do you think the ETF industry is lacking? We've launched a ton of core, passive, smart beta, we've even entered the active space, we're starting to see these niche ETFs creeping up, alts, they're not there yet, I don't know if the market makers have the framework to support that. But is there a glaring gap in the industry that you see today that needs to be addressed going forward?

01:13:22 Linda: Well, I would love to see an ETF that would have some sort of guarantee component to it that could compete in a traditional bond latter where we would not have an ETF go down when interest rates go up, or even active money management for that matter, just because inventory is so scarce in the fixed income field. The other type of area, if we could sort of mimic some of what some of the institutional clients get access to, which is private equity, or private debt in the ETF space would be I think a great addition to core portfolios.

01:13:58 The issue there is with liquidity, so it's a tough issue to overcome in that type of space, but that type of ETF would be welcomed in our practice.

Kurt: I'd say what I'd like to see from the ETF channel is probably three things. It's funny Lind speaks about fixed income. We've got a lot of individual fixed income. Hundreds of millions in individual bonds, and I'm sure right now I've got a team of three people in the office rolling over bonds this morning, because we do it every day.

01:14:32 And that is a huge amount of time in our practice. We don't use bond ETFs for the very reason Linda mentions. I don't want to be sitting in front of a client trying to explain how their safe money is down. So we use individual bonds where we don't have to, and that's worked very well. But there's an administration side of it that is hugely labour intensive. I’ve been asking the existing ETF providers for ten years, can you come out with a fixed nav bond product. Doesn’t exist yet. And the day it does I’ll give them a lot of money.

01:15:04 That’s one. I think more multi currency. In the global world we live in I’ve got clients all over the world, and I know all you will as well. And even if they don’t, they travel all over the world. I don’t, I know there’s US dollar ETFs, I don't think I’ve seen, at least not available here, easily, other currencies yet. And while that may not be a huge need, it’s a growing need. So I’d like to see that.

01:15:34 I think the third thing with the ETFs is just continued information and education. As we try to deliver value to explain to clients what they own, how it’s doing, they need to get to where mutual funds companies have been for 30 years. They need to support us better. They need to give us lead time when there’s changes. And maybe the biggest thing is that as we all watch compliance get more and more into our daily lives, they need to step up and support us in delivering on the client needs so it takes some of that off of our teams.

01:16:02 Andrew: I think that’s a great point. And to plug one of my competitors over there, they do have the maturing corporate bond ETFs.

Kurt: It’s not quite the same.

Andrew: I agree. You’ve got to look at the YTM [yield to maturity], do a little bit more due dil, see where they’re trading. I think it’s quite innovative in the space. So kudos to those gentlemen over there. Let’s talk about horror stories. So, I’ve gone through a couple bad experiences trading large volumes of ETFs, where a trader puts through a market order, I’ve seen some other horror stories on the advisory side.

01:16:34 Can you walk us through some of yours, do you have any bad experiences, Kurt?

Kurt: No really, although you’re right, there’s a sensitivity to bid ask prices and market makers. I think it’s better than it was, but we’ve come a long way in the ETF world. So you know, staying away from fringe products, we’ve seen a lot of them close in the US for some of these reasons, just a lack of assets an dhow deep the market is. But if you’re saying in the middle of the road and buying, you know, mainstream products, it shouldn’t be much of an issue. I think no different from mutual funds, 20 years ago, who didn’t buy a china fund or a biotech fund and have some issues there?

01:17:13 So it’s kind of the same in the ETF space, is that, you know, if you get out into the tall grass you could have some challenges. But nothing really beyond that.

Andrew: Have you had any bad experiences Linda?

01:17:23 Linda: No, I would just caution people that if they are looking at, especially on the discretionary portfolio management side, that they are going to add an ETF to the portfolio that you do do it through the ETF provider, making sure that they will try to help to get a better bid ask spread. So that’s a word of advice, say. Us personally, we didn’t use, and I saw it on the screen there earlier, the leveraged and inverse ETFs.

01:17:50 I think people, we didn’t get involve din that, but people, their advisors got involved with that without actually understanding how those are priced and traded. So a lot of clients lost money very quickly on trades that went bad in that space. So you have to make sure that when you’re including an ETF or any investment vehicle that you understand how it actually works and what the mechanics are behind it.

01:18:21 Andrew: Yeah, I was in Fidelity trading on January 30th and looked at my account and realized a bunch of it was missing, and it was the interest volatility.

Linda: You should have had me as your advisors.

Andrew: And I was previously an ETF analyst, I knew what the risks were, and I still got complacent and I was involved in that. But I think it’s an interesting point, where it gets to what’s the underlying liquidity of an ETF. Because when we’re looking at large cap stocks, and you have big AUMs in ETFs that’s not necessarily a problem.

01:18:47 What happened on the VIX that passive space when the futures market tried to settle the outflows of the ETFs you saw those ETFs crash about 90% in a given day. So I think it’s balancing the, what’s the ETF AUM and what’s the liquidity of the underlying. Because at the end of the day an ETF is as liquid as its liquid stock. And I think a second point is leaning on the manufacturers for trading purposes. I have a team, we’ve been live for two weeks, we’ve only received three phone calls for trade execution. So we can generally deal inside the bid ask spread, but I’ve found advisors aren’t making enough of that service because we can often lean on the market makers for better pricing for the clients at the end of the day.

01:19:30 But let’s get into where do you see your practices heading in the future? Do you see dramatic change, are you pretty happy with the way it’s positioned? Kendra was talking about hybrid advice, where do you see you taking your practice over the next 20 years?

01:19:45 Kurt: For me the addition of portfolio management licensing was important for a couple of reasons. From a practice management perspective when you get large, you know, if a stock gets in trouble and it's in 80 portfolios it's kind of time consuming to be calling 80 people. So from efficiency perspective, portfolio management was a good add on in a lot of different ways.

01:20:14 We're not completely portfolio management. We're still probably 50% traditional non discretionary. You know, IIROC licensing. Not everybody wants it, and we're not going to force it on them. Again, it's about all the tools in the toolkit. Some people like to be involved in trading, and we're not going to take that away. So again it's nice to have both. So that's one thing, is continued movement in that direction.

01:20:35 In terms of where the practice goes, the robo advisory, five years ago when it first emerged, was a concern. Just like discount brokerage has been a concern to all of us for a lot longer. That was a concern until I started taking clients away from robo advisory. And I wrote about it, if you Google my name and you Google how to kill a robo advisor you'll see how to do it.

01:21:04 It's also on my website. And for me it comes back to what Kendra said, is that it's an enabler, and it's a tool in the toolkit, but it's not a solution for most people because, in my opinion, they don't answer the questions about goals, about when you're retire, about how do you save for your children, about how much life insurance you need, about when you'll be debt free.

01:21:28 And that is always going to be worth something, guys. It may not be worth a DSC 5%, or a 1% trail. And you may need to find tune your pricing in a much more sensitive fee world. But there is absolutely no threat to the advisory channel. People need us more than ever before, and I look forward to the next 20 years with all the boomers retiring with no clue how much they need to retire, and spending more than ever, and they need us in the middle.

01:22:00 Andrew: I agree with that statement completely. Linda?

Linda: Well, it's also going to be interesting, we've been in a situation where we've had pretty productive markets for some time period, and with the robo advisors, they haven't actually been challenged in a very negative volatile market. So the success rates of them, I'm not sure how that'll pan out at that time period. But financially I'm not sure they have been as successful as they had actually envisioned when they started these types of strategies.

01:22:32 So for us what our, we run our practice a little bit like Kurt here, that we really focus on achieving client goals, that's the number one thing we do. And there's very many spokes in the wheels that we use in order to do that. And as those goals change over time through families of generations is clients constantly need to reevaluate their portfolios, and that's what we're here to do.

01:23:02 We've actually rebranded ourselves to, make sure I read it correctly, because it's a little bit new, but family wealth council advisory group, we used to run under a named type of advisory group, but we realized that our names don't really mean too much to people so much, what really means something to them is what we do, which is family wealth counsel.

01:23:26 We look at providing clients service from cradle to death, and then into the next generation. So that's how we have positioned ourselves from a value perspective, and of course we're very conscious, and I think you have to be conscious in this world of fee compression, both from an advisory practice point of view and an investment vehicle point of view. But I agree that people there is value, people will pay for that.

01:23:55 And even the millennials, they'll look to pay for service if they see value.

Andrew: Let's talk a little bit about the generational wealth transfer, because I think that's been in the media for about five years. We really haven't seen the money shift. But are ETFs an important part of the process to take on the next generation? I also know the broker dealers don't love small account sizes. So how do you balance the millennial children of a wealthy baby boomer, and do ETFs play an important role, do you use model portfolios, do you take on those clients, can you explain how you're handling that shift?

01:24:30 Kurt: From an intergenerational perspective, if you want to hang on to the money of the senior client you'd be well advised to take on the kids at any cost. It's not about making money, it's about preserving the relationship on lots of different ways. SO the product choice as an ETF, what I find is that the 30 year old client knows more often about investing than their 60 year old parent does. And the 60 year old parent doesn't want to know.

01:25:00 They expect results, they're not fee sensitive either, the 30 year old is. So again, if you're not having all the tools in the toolkit, and the 30 year old comes along, the last thing you want to do is have him go to his mom and dad later and say, you know what, this is nowhere near state of the art,

		what are you guys doing here. Uh oh. So it's something where I think it can hurt you if you don't take them on.
01:25:24		At the same time, I think I look at it as if you're positive and you make it a good experience, and I had this happen yesterday, we had a 31 year old client sit down last week looking to buy a home, baby on the way, not a dollar to invest. You know, I talked to his folks yesterday, Kurt, lovely experience, thanks so much for helping the kids, they spoke very highly. That's a check, right. That's what you want. So you take them on.
01:25:52	Linda:	Yes, absolutely, I agree 100%. We look at our whole clients as households. We're family wealth counsel, so whether it's, you know, an 18 year old who's just starting to save, not even working yet, or their grandparents, we're in the business to provide family wealth counsel, so that would include all clients.
	Andrew:	Do you chalk that up to access to information? Just the informational advantage, the millennial generation grew up on the computer?
01:26:18	Kurt:	A little bit, for sure, yeah. For sure.
	Andrew:	With that we've got about 15 minutes left, so I want to open it up for questions, I want to thank the panelists, I think that was a pretty engaging discussion. I think the key takeaway is you can't pigeonhole yourself. You need to have stock selection, ETF selection, mutual fund selection, depending on the environment of the client.
	Kurt:	Can I say one more thing? Think of your practices, guys, defensively, and offensively. Defensively is, if we're sitting down with your client, with your investment statements, do you have all the tools in the toolkit, have you been transparent on fees, do you have a value proposition to find are they aware of it to avoid us taking them away from you?
01:26:54		And offensively, when Jarislowsky Fraser rolls into your affluent client's office with their 1% fees on a discretionary platform of value stocks, can you compete to match that, or better yet, can you take it away from them. I think that with 400,000 of us competing across Canada against each other, you're best served to make sure you're well prepared for the future.
	Andrew:	Any questions in the audience here?
01:27:29	Audience:	I've got two questions here. IN the two presentations this morning there's been a lot of talk about giving the clients what they want. But most of us deal with retail clients, and even non retail clients we know, we're all emotional, not really very rational in terms of what we want. We want a

lot of things, and Kurt, I think you were alluding to that, sort of pushing back a little bit in terms of what the clients is looking for.

01:28:00 In terms of your experience as an advisor, is our responsibility just laying out the options for the clients, our options in terms of proscribing a solution to the client

Kurt: No, it's more than that, it's for sure more than that

Audience: Or is it just catering to what the client is looking for?

01:28:20 Kurt: No, of course you're going to lead them, you're the advisor, tell them what to do. Convince them why it's right for them. Be transparent, educate them. But stop selling them.

Audience: So it is not necessary given what the clients want, right, not all the time.

Kurt: If only it was that easy.

Linda: I think what you have to do initially is spend a lot of time with just goal discovery when you sit down with a client. So the first conversation shouldn't really be about product or investments at all. It really needs to be to sit down, to understand what the client's goals are, and what the interests are, and how you're going to help them along that path, as opposed to any type of investment vehicle discussion really shouldn't come up.

01:29:05 And if it does it may be a client that you actually don't really want to take on.

Audience: Again, I find it interesting, because last week I was in a conversation with regulators and the same thing came up, and I find that, whether in the media or sometimes in our own mind that we always assume clients are rational, what the clients want they should get. And that was my first question. The second question goes to both of you. Kurt, you use a blended model, and Linda, you use a blended model as well, discretionary versus non discretionary.

01:29:42 I find it difficult to run these blended models. In operation, I'll give you an example. Let's say you hold Royal Bank stock, and in a non discretionary account, in a fee account you can suggest to the client and say buy more, sell more, very little friction in terms of executing that investment idea. Now, if you run a blended model you have another client who says, I'm not going to buy more or sell the Royal Bank stock, because of the commission incurred, or in terms of getting in touch with that non discretionary client, you know, I'd like to think about it and what have you.

01:30:25 So you end up having clients holding portfolios, I think you're losing control to a certain extent and getting confusing sometimes who has what and what have you. How do you guys deal with that?

Linda: We went through a process change for this very reason, in that we moved a lot of our business to the discretionary side for this very reason.

01:30:52 And it was a long process, it took us about two years to get all the whole book holding basically the same investments. Because you're right, you as an advisor put yourself at risk if you have a book full of a thousand different types of securities. We do hybrid as well in that we have non discretionary clients, but our recommendations tend to be the same, and if they're not, sometimes it's a bit client driven, or if they hold something we don't hold we make it clear to them that we don't really watch it on a day to day.

01:31:27 So we'll look at it from time to time, but we really basically put it on, it's the client's responsibility to, if they want to buy these one off stocks, that's not really recommended on our behalf, it's really up to them to make sure that they're pulling the triggers on it. I would like to be 100% discretionary, much more efficient from an advisor's point of view.

01:31:50 Kurt: I'll even make it worse from what you described. Compliance is watching directional trading as well. And they'll call you and say why did you sell here and buy here. So the short answer is, systems. When you get to a certain size you'd better have good systems in place to track all of this. And we do. You know. It would be a lot simpler to be one of the other, but we think we can manage the differences in opinion with different clients, and we value the customization we can deliver on a one on one basis and I'm not moving from that.

01:32:25 Andrew: Can you walk us through a little bit irrational clients? Pretty easy markets over the last five, six years, everything's been going up. I think more recently emerging markets struggling this year, fixed income markets having a bit of a challenge. Have you had any conversations in the recent six months where clients are starting to get a little bit shaky and how are you handling those?

01:32:44 Linda: We do, we have a very high touch service practice, so we are in constant conversations with all our clients, you know, particularly if there's moves. But what we do a lot is delineate what's happening in the media or in the markets, and the media when they're portraying some of these events to what actually is the reality in their portfolio. Because a lot of clients will look at BNN or whatever it is, and nothing wrong with these media outlets.

01:33:12 but they'll say oh my god, you know, this market's down 20%, and I'm down 20%. After they look at the reality, your portfolio is up, actually up in this market. So you really have to look at making sure that they understand what their portfolio is doing in relation to their friends as well, their friends and the media. The other thing I would say is you actually have to also, which is alongside the question that this gentleman asked, is that you also have to be strong in your conviction of what you want, what you're doing for the portfolio.

01:33:55 So for example, this gentleman I had around 2007 where the markets were running up very very high, and he wanted to look at buying this condo and needed a bunch of money from the portfolio. And he said let's put it in the market, the markets are doing great and we can get so much more return, and I said no, we can't, because we, the markets are looking frothy, but I don't know what the markets are going to do in the next six months.

01:34:15 And we actually had a bit of a fight about it, and I said to him, I'm just absolutely not going to put this million dollars in the market hoping that in six months we get a good rate of return, and of course the markets corrected, and he would have been down 50% needing to use the money for an asset sale. So that's, you have to be strong in your conviction of what you believe is right for the client as well.

01:34:42 Andrew: Explaining to my wife that I lost 50% of our house purchase would not go over well.

Kurt: We all know that we're more psychologists than money managers. And that will never change. That might be the strength, actually, of advisor value as part of the value proposition itself. In my practice we long ago segmented communication frequency and style as itself a value proposition inside the practice. There's three to four different components of how we define value for the fees that are paid.

01:35:15 Five years ago I lost a client worth 5 million dollars because one of my staff didn't respond to an email on a Saturday night. You all know that's the world we live in. And we all make choices. Did I expect them to? No. Do I expect them to now? Yes. And anybody that's ever faced a client irate on a smartphone because you didn't respond gets that. You know what, maybe you don't do it for a $200,000 client, but you sure as hell better do it for a $10 million client.

01:35:50 And so I think the reality is is that the psychology of, you know, Kurt, we have 17 good stocks, or 17 good ETFs, but those three on the bottom, can se well them and buy the ones at the top? We've all faced that, it's an educational process, stick to your guns as Linda said on philosophical principles, do your best on customer service, but the game has definitely been elevated.

01:36:15 And if you're a Monday to Friday 9 to 5er and disappear for half the summer, you know, we're hunting your clients.

Linda: In other words if your golf game is really good, watch out, you might not be the best advisor.

Andrew: I'm about a 30 handicap so I don't fit in that category. Do we have any questions for the audience?

01:36:35 Audience: Thank you both very much. Linda, I have a question for you. Could you share, please, a little bit about your rebalancing process?

Linda: Our rebalancing process, we look at our portfolios, monthly for sure, but really almost daily, such that if our asset allocation becomes out of whack by more than 5% we look to rebalance. So if our equity sleeve has gone up 5%, we don't have a hard fast rule, but 5 or 6%, then we look at maybe we should rebalance in terms of allocating cash,

01:37:12 sell off, trim off a bit of the equity portion, put it into the fixed income portion, or into some of the cash, or into some of the different geographical allocation. We also look at top down sort of macro views, so if we feel that Canada is going to under perform, decrease Canada exposure, increase US or global or emerging markets as the markets dictate.

01:37:40 So we don't look at a time weighted type of, or a time period allocation, we look at market allocation.

Andrew: What about you, Kurt?

Kurt: You didn't ask me, but I'll give you an answer anyway. 15 years ago we sat down with a lot of clients and said let's talk about when you expect us to trade. And collected all their opinions and matched it up with what we philosophically believed and came up with a set of qualitative and quantitative variables that we put in a pdf.

01:38:11 Because when I sit down with clients and say when does your advisor trade now, they often have no clue. And then I say do they have any well defined principles on paper you can show me? No. Here's ours. So right from the start we show them there's a well thought out process that's literally on paper on how we will manage their money.

01:38:31 Now, to specifically answer your question, we commit rebalancing three ways. Strategically, dynamically, and tactically. Strategically is the stuff that the KYC requires. Stage of life. Knowledge level. Net worth. All of the factors that define who the client is and what the goals are that we all know well. The dynamic rebalancing is against the investment policy statement, of which every client has one. What is the asset allocation defined, to Linda's point, has it deviated more than 5%, 7%, let's rebalance back periodically.

01:39:03 you can define it by time, you can define it by a percentage. And the third one is we rebalance by the weather, also called market timing. What's going on with the crazy man south of the border. Where are interest rates going. Gold, etc. So all of those together are laid out to the client, thought about regularly, executed on, so that they know that what we're going to do in up markets and down markets is a function of a variety of variables, and that we're proactive in earning our fees.

01:39:31 Andrew: Any questions out there?

Audience: It ties into your explanations, thank you Kurt, that was excellent. So, Linda, you're fee based, Kurt you have five different ways of getting paid, how does that translate into costs when you rebalance each of your client's portfolios?

01:40:01 Linda: Well we're primarily fee based, so there is no additional cost to do any sort of asset allocation, it's an all inclusive fee.

Kurt: To explain how I use the five approaches, we've broken investment management away from financial planning. Of course we integrate it. But if someone wants a retirement plan that's a flat rate or an hourly fee. And our dealer has long allowed for the charging of that, which is part of half the battle.

01:40:30 A lot of dealers don't let you do this yet, that's an issue. They need to catch up with the times. But the fact of the matter is that on the investment management side I'm predominantly, probably 95% fee based. So when you rebalance the trading is all free. There are costs that will kick in if you do a lot of trading, but it's not our style to do that. So the rebalancing is free, largely, and what's nice about it, with householding, so let's say you've got the 30 year old who's got $20,000 in their portfolio, and wants to trade a bit.

01:41:00 Well, if you can household them under the parents' umbrella for fees you can also get the fees free that way as well, which is great, that way when they're buying one apple share you don't have to charge them a fee that's worth more than the share is, right. You've got to have those nuances, as you know.

Andrew: With that I want to thank you guys, that was a great panel. Can we get a round of applause for these panelists?