

Lorne Rae



## Investment Counsellors

**A**cross Canada, Investment Counsel firms actively manage segregated discretionary money on behalf of individual investors. In effect, for a modest fee, they make the “what to buy and sell and when” decisions for the investor. In recent years, as investor net worth has grown, more individuals have sought the services of these investment professionals than ever before.

Why? The current dynamics of the investment market make the active management approach more attractive than passive, e.g., indexed or pooled, management.

- A) Low nominal growth environments create winner-take-all markets. North American economies are now experiencing some of the lowest nominal growth in the postwar period. In essence, the economic pie is not growing fast enough to accommodate marginal players. In this environment performance ultimately becomes a function of avoiding the worst stocks, rather than owning the best ones. Index investing unnecessarily exposes the investor to performance-crushing returns of weak stocks like Nortel in recent years.
- B) The size of indexed assets is its Achilles heel. Indexed assets have grown in the US from \$100 billion in the early 1990s to nearly \$1 trillion today. This hyper-growth often forces investment management companies to enter benchmarks at

inflated prices, lowering future potential returns for investors. For example, Yahoo! Climbed by 64 percent between the day its entry into the S&P 500 was announced and the day it actually went into the index. The S&P itself has found that shares entering its Index rose 8.5 percent on average between the time their admission into the index was announced and the effective date of their entry.

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***More moderate and stable returns are likely in future.***

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- C) More moderate and stable returns are likely in future. In a low return market, more in line with historic averages, the effective stock picker should have an easier time outperforming the indexes.
 

Segregated money management—a service offered by investment counsellors—is frequently more appropriate for higher net worth individual investors than pooled accounts or mutual funds.

  - A) The management of taxes is better facilitated. Mutual funds treat everyone equally; often investors are faced with capital gains taxes on stocks purchased before they bought the fund.
  - B) Costs are lower. Mutual fund expense ratios are much higher than

investment counsel fees and are not tax deductible as are counsellor fees.

- C) Segregated funds can be tailor-made. Many individual investors have special moral, ethical, and/or economic preferences that pooled portfolios or mutual funds cannot facilitate.

Investment counsel firms provide investors with a truly personalized service.

- A) Counsel firms are usually local. The investor typically deals with professionals who reside nearby, not half-way across the continent, a factor facilitating more frequent face-to-face communication.
- B) Portfolio managers are readily accessible. High net worth investors care a great deal about their portfolios and usually desire to communicate directly with those responsible for the decisions affecting their portfolios.

For these reasons individual investors would be well advised to consider a role for investment counsellors in their planning process. ▲

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