

Global rebalancing should be underway

National Post

Monday, January 16, 2006

Page: FP12

Section: Financial Post: Advisor Post

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Column: Well Advised

Source: Financial Post

While their clients are still enthralled by the strong returns generated by Canadian-domiciled investments, most financial advisors are taking a contrary stance and suggesting a rebalance globally.

No one disputes the Canadian economy, stock market and currency have been thriving the past few years. But advisor Martin Kosterman says he is paid to persuade clients to do what they are not emotionally inclined to do: Invest in stocks performing poorly lately, not those proven to be hot.

Kosterman of Oakville-based Fiscal Agents recalls one client who recently wanted to "pull back" all his global investments into Canada. "I said I'm recommending you do the opposite."

Imran Syed, a financial planner at Pallenburg Wealth Management in Ottawa, says clients focused on the high returns of income trusts and Canadian dividend stocks have taken their eye off the "efficient frontier." They should worry less about short-term currency fluctuations and more about the impact on portfolios once the Canadian market underperforms, "which it will." He advocates going global and says clients can deal with the currency issue by using funds that hedge the loonie, such as Mackenzie's Cundill funds.

Whether the focus is domestic or global, consultant Dan Richards expects a strong RRSP season, with continued dominance from Canada's banks. Last week, a poll by RBC Asset Management showed retirement is again the top financial priority for Canadians. "I'm not sure I'd attribute that to any massive awakening of a critical need to invest," says Richards, president of Strategic Imperatives in Toronto. "The big change is Canadians' confidence in the market as a whole."

He says advisors are cautiously diversifying clients into non-Canadian equities. This is not without risk, Richards concedes, because the loonie may soar further if commodities continue to do well and returns from U.S. and foreign equities would be correspondingly reduced. He is underweight Canada but is confident that for his 10-year-plus time frame, his global strategy will pay off.

If you believe commodities are a cyclical play, at some point Canadian equities will revert to the mean or even the subpar returns they have generated before. The chance to rebalance globally while the loonie buys more could be viewed a few years hence as a golden opportunity.

Richards and other advisors suggest the equity portion of an RRSP be divided in three equal portions among Canada, the United States and the rest of the world.

Jim Rogers, chairman of Rogers Group Financial in Vancouver, says RRSPs should be invested for the long haul like institutional pension funds. Foreign content should be a function of need, with the exact mix flowing from the Investment Policy Statement crafted at the onset of the client relationship. "On average it will be significantly globally oriented." He uses traditional global [which includes North America] and international [non North American] mutual funds and is making more use of passively managed index and exchange-traded funds.

David Bruce, an advisor with ScotiaMcLeod in Toronto, has weaned clients off most actively managed products. He advocates a low-cost asset-class-based approach to portfolio construction, focusing on the index funds of Dimensional Fund Advisors Canada. Relative to Canada's 3.4% weighting in the MSCI world index, he says even the three-way split "grossly overweights Canada." The S&P/TSX composite index did well last year but "there are other areas of the world that did just as well. My Canadian allocation is a little less than a third."

He uses three DFA Core Equity Funds focused on the three geographies. These are broad-based index funds providing exposure to about 2,500 securities each (366 for DFA Core Canadian Equity Fund). DFA "tilts" the core funds to value and small cap by investing 20% and 15%, respectively, in the value and small-cap versions of the funds in each market.

Gradually putting new money into global funds is a less radical approach than actively selling Canadian securities to go "global" all at once.

Toronto-based fund analyst Dave Paterson is having difficulty identifying U.S. equity funds for advisors. Funds such as C.I. Value Trust or Mutual Beacon will "deliver decent returns on a risk-adjusted basis" but he prefers an S&P500 or mid-cap index fund or ETF. Alternatively, advisors can provide U.S. exposure through such global funds as Trimark Fund or Cundill Value.

Saskatchewan-based Shane Biehn of Berkshire Investment Group says conversations with local farmers make him question how big an RRSP season 2006 is going to be. Those selling their businesses aren't keen to reinvest it in the stock market at today's prices, he says.

Clients selling their businesses tell Vancouver advisor Diane *McCurdy* the same thing. She is wary about the volatility of income trusts and has concerns about the U.S. market. Her suggestion for conservative clients wanting to park large one-time injections of non-registered cash: GWL Real Estate Fund, a segregated fund.