

# Investment Counselling: Not A New Profession



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*“My advice to investors (who cannot give full time to a study of investments) is to seek out some trusted investment counsellor. The emergence of this new profession of disinterested investment analysts, who have no allegiances and whose job is to judge a security on its merits, is one of the most constructive and healthy developments of the last century.”*

Bernard Baruch 1870-1965

## I. INVESTMENT COUNSELLING BACKGROUND & HISTORY:

The investment counselling profession has been around for almost 100 years. According to an October 2006 **Investment Advisor** article, Arthur M. Clifford, in 1911, opened his own Los Angeles-based brokerage firm after spending several years as a broker and analyst at a brokerage firm in St. Louis. Then, in 1915, the widow of the creator of Fletcher’s Castoria, Mrs. Robert Bliss, asked him to review her US\$30 million in assets, and A.M. Clifford started calling himself an “Investment Counsellor and Financial Analyst”. Based upon this and subsequent client experience, Clifford decided in 1921 to serve exclusively as an investment counselor and no longer as a broker-dealer. This appears to have been the starting point for the investment counsel profession in the United States. His firm, now known as **Clifford Swan Investment Counsel** continues to exist today in Pasadena, California.

A central theme to investment counselling firms is being completely objective in the advice that they provide to clients by being compensated **ONLY** through a fully transparent, asset-based fee that is tied to the market value of a client’s portfolio, as compared with a sales commission on an individual security level, as with traditional broker-dealers. By doing so, Investment Counsellors are focused on crafting a completely objective, portfolio for clients that meets their unique needs, circumstances and tolerance for risk.

*“An Investment Counsellor... should place himself in a position to consider only his client’s best interests to the exclusion of every other consideration.”*

A.M. Clifford, 1925





It's also important to note that many Investment Counselling firms will also view themselves as more than simply “money managers”. Specifically, Maye Albanez, a long-standing principal at Clifford Swan is quoted as saying:

*“We’re not just a money management firm. Investment Counselling is concerned with much more than just beating the market from day-to-day. We’re looking at preserving the wealth of our clients over generations. That can include estate & tax strategies. There may be a need to transfer some of that wealth to other generations in order to try to avoid as much of that inheritance tax as possible. We consider what their tax situation is without pretending to be accountants or attorneys.”*

Maye Albanez, 2006

As a true professional, many investment counsellors will also recommend “best of breed” outside experts who have professional competencies beyond investments such as accountants, lawyers, insurance advisors, and in the case of institutional pension assets, actuaries. As a result, a quality investment counsellor can also become a client’s “quarterback of their financial team”.

## II. INVESTMENT COUNSELLING IN CANADA:

Investment Counselling in Canada has a similar long-standing history of being a completely objective provider of portfolio advice for affluent family and institutional clients such as foundations, endowments and pension plans. In fact, one investment counselling firm, Cassels Blakie — which is now part of Bank of Nova Scotia, traces its roots back to 1877. Given the differences in the financial landscape in Canada, our investment counselling industry has gone through considerable consolidation over the past twenty years. Although many of the investment counselling firms of the 20th century are now part of larger financial institutions (ie: McLean Budden – now part of Sun Life; Philips, Hager & North – now part of RBC; Jones Heward – now part of BMO, and Cassels Blakie – now part of Bank of Nova Scotia) there continues to be a number of independent investment counselling firms that include firms such as Fiera Sceptre Investment Counsel, Jarislowsky Fraser and Beutel Goodman. HighView Financial Group, through our investment counsel firm, HighView Asset Management Ltd., is also such an independent investment counselling firm. Such independent investment counselling firms value their independence in order that they can remain completely objective in the professional advice and the services that they provide to their clients so as to not be exposed to ANY potential client



conflicts of interest that can potentially exist when part of larger financial organizations that have integrated business operations that span investment management, brokerage, lending, and custody of client assets.

In Canada, the industry association for investment counsellors is the **Portfolio Management Association of Canada** (formerly, The Investment Counsel Association of Canada). It was founded in 1952 and its current members are responsible for the management of over C\$700 Billion of client assets.

### III. WHO HOLDS MY INVESTMENT ASSETS:

A core service feature of the clear majority of investment counselling firms is that they do not take “custody” of client assets. In other words, although they manage the investments on behalf of their clients, they do not take possession of client assets. Instead, client assets will typically be held, in a client’s account with an independent custodian, normally a large, financially strong, well-respected financial institution. As a result, the client has two contracts: One contract with the investment counsellor for the management of their assets and a second contract with the custodian for safekeeping their assets. This means that the investment counsellor can only manage the assets **WITHIN** the client’s custodial account and **CANNOT** deposit or remove assets from the client’s account, without their permission as the custodian will only act on the client’s instructions. At HighView Financial Group, we believe that this “division of duties” — ie: separating the investment management function from the custody function is critical to providing clients with the comfort related to the safety of their assets and mitigating the opportunity for fraud. Even within large financial institutions, their investment counselling divisions will typically not take custody of client assets but are instead custodied through a separate custodian that is within the financial institution’s group of companies. When this ‘Division of Duties’ principle is violated, it always increases the risk of conflict of interest and potential fraud.

### IV. PROFESSIONAL CRITERIA TO BECOME AN INVESTMENT COUNSELLOR:

Investment Counsellors in Canada represents firms, registered as portfolio manager with various provincial securities commissions, that are only in the business of discretionary investment management for clients. Few organizations are permitted to provide discretionary management where the portfolio managers make their own decisions in making and changing investments for clients, all within the investment objectives & risk tolerance established with each client. To be able to do so, investment counsel and portfolio managers meet the highest conditions of registration, in terms of both experience and education, with the applicable provincial securities commissions.



Many investment counsellors/portfolio managers will also hold the professional designation, **Chartered Financial Analyst**, through the **CFA Institute**, is a global, not-for-profit organization comprising the world's largest association of investment professionals. With over 100,000 members, and regional societies around the world, the CFA Institute, since 1947, is dedicated to developing and promoting the highest educational, ethical, and professional standards in the investment industry.

## V. TYPES OF INVESTMENT COUNSELLORS:

There are a variety of ways to classify investment counsellors. At HighView Financial Group, we view these firms according to the following three categories:

### 1. **Investment Offering:**

Most investment counselling firms have their own proprietary offerings with specialization in certain areas of the capital markets, such as Canadian Equities, Fixed Income, US Equities, etc. A newer breed of investment counselling firms specialize in using the “money management” expertise from a select group of other proprietary investment counsellors so that instead of focusing on the selection of individual “stocks & bonds”, they can then focus on constructing portfolios for clients using a broad range of asset classes & investment mandates selected from other specialist investment counselling firms. HighView Financial Group would fall into this latter category, which we refer to as “multiple manager” investment counselling firms. Another term for “multiple manager” used in the investment industry is “open architected” which means that the investment counselling firm does not use any of their own investment products but instead sources, through an independent research process, the use of other investment managers.

### 2. **Investor Segment:**

Investment Counselling firms can serve either broad client segments (ie: private families and institutions such as foundations, endowments and pension plans), while other firms focus on a specific client niche.

### 3. **Ownership:**

As discussed above, investment counselling firms are either independent (ie: owned by their individual partners) as would the case with other professional practice firms such as lawyers and accountants, or they are part of larger financial organizations (ie: either owned fully or partially) such as banks, life insurance companies or global investment management firms.



## VI. BENEFITS OF WORKING WITH AN INVESTMENT COUNSELLOR:

The benefits of investment counsellors to clients remain relatively the same as they did when the profession was founded almost 100 years ago:

### 1. Objectivity of Advice:

As they are compensated only through the fees that they charge investor clients, Investment Counsellors are completely objective in the securities that they include in clients' portfolios.

### 2. Transparency of Fees & Services:

As Investment Counsellors' fees are typically charged separately from other portfolio costs such as custody and brokerage transaction costs (both of which are typically provided by separate firms), the fees and services that Investment Counsellors provide are fully transparent to investor clients.

### 3. Independent Research & Due Diligence:

As the investment reputation of each Investment Counselling firm is premised upon their ability to construct quality portfolios for their clients, Investment Counselling firms will typically use their own independent research and due diligence capabilities to support the inclusion of all investment securities within client portfolios. In other words, they know, and can independently and objectively justify to their clients, why they purchase and sell the securities in all of their clients' portfolios.

### 4. Professionalism:

As discussed above, the professional requirements for Investment Counsellors, given the discretionary nature of their investment management relationship with their clients, is the highest in the investment industry.

## VII. HOW TO SELECT AN INVESTMENT COUNSELLOR:

At HighView Financial Group, our experience goes well beyond the practice of investment counselling. In fact, we have collectively been responsible for the management and stewardship of more than \$100 Billion of client assets in senior wealth management leadership roles at leading financial organizations including RBC Dominion Securities, CT Investment Management Group, BMO Nesbitt Burns, CIBC Trust, and TAL Investment Counsel. It is these experiences that have enabled us to formulate our view that quality investment management firms have three key attributes:



1. A well-defined set of philosophical beliefs in terms of how money should be managed,
2. A clearly defined set of investment & operational processes that facilitate the implementation of their philosophical beliefs, and finally,
3. A group of talented investment professionals who are passionate about the work that they do and the way that they do it.

In other words, quality investment counselling firms are about **Philosophy, Process & People**.

## VIII. THE FUTURE OF INVESTMENT COUNSELLING:

At HighView Financial Group, we believe that the future of investment counselling in Canada continues to be extremely positive. In a 2007 study conducted by **Investor Economics**, a long-standing, reputable & independent investment industry research firm, concluded that the Investment Counsel industry that caters to private wealth clients (versus institutional clients), would be growing at an annual growth rate of 15% between 2006 and 2016, from \$113 Billion of client asset to a forecasted level of \$560 Billion of client assets. We believe that this trend is being driven by two key themes:

### 1. Rising Affluent Family Demographics:

An aging population of wealthy households who will seek the affluent discretionary investment services that are the hallmark of many investment counselling firms. Investor Economics, also in a 2007 study, concluded that Canadian households with investable assets greater than \$1 Million would increase between 2006 and 2016 by 8% per year from 471,00 to 1,027,00 households. What's more interesting, though, is that the investable assets owned by these households are forecasted to increase, over the same time period, by almost 2.5 times from \$1.5 Trillion to \$4 Trillion.

### 2. Investor Desire For Objectivity & Transparency Of Advice:

In our decades of experience in the investment industry, we have never seen the degree of uncertainty and confusion that currently permeates the wealth management landscape; and it is not restricted solely to the clients. We are seeing many advisors and advisory firms rethinking their value propositions relative to meeting their clients' needs and expectations. The historical foundation and future sustainability of the entire Global Wealth Management Industry is based upon earning and keeping the confidence and trust of our investor clients. This trust





and confidence has been eroded by our industry as it continued to push ever increasingly sophisticated and complex investment products with the promise of unbelievable returns. The industry further compounded the problem as it moved along the management asset continuum with poorly designed investment portfolios using efficient frontier methodologies that proved to be misaligned with the investor clients' journey in life, their investment goals and their own tolerances for risk. This experience has left investors wanting. They fear for their future and are confused on where to turn to get the objective & transparent solutions that will provide the comfort for which they are searching and the clarity needed to regain their confidence and trust. We strongly believe that quality, independent investment counsellors – given their fundamental beliefs in objectivity, transparency and independent research & due diligence – are perfectly aligned to address these investor client needs. The following quote from the 2010 **World Wealth Report** supports this view:

*“Clients are demanding fundamental changes in how they are served, and are rewarding Firms that can clearly demonstrate a sharper understanding of their needs and objectives, and deliver risk-adjusted portfolios, increased transparency and simplicity, and specialized advice. As clients become more educated about their own investment choices, they increasingly expect ‘Specialized’ or ‘Independent’ investment advice, and are re-validating advice from their Advisors/Firms through other sources, including peers, the Internet, and other research alternatives. They also expect the advice to be aligned with realistic and appropriate goal-setting, based on their actual risk profile.”*

2010 World Wealth Report, Capgemini