Seven Impediments To Sustainable Wealth

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At HighView Financial Group, we believe that while the attainment of wealth provides investors with freedom, the accumulation of wealth requires patience, perseverance and hard work. Because of this, investors don't want to create their wealth twice!

In fact, with the rising uncertainties in the global marketplace, many investors are increasingly seeking ways to make their wealth 'sustainable' in order that such wealth can be used to comfortably fund their future consumption requirements. This applies to all types of investors whether family or institutional client such as pensions, foundations & endowments.

In our experience managing both family & institutional client wealth over the past couple of decades, we've noticed seven (7) impediments that investors can experience in making their wealth sustainable, which we review below:

1. Relative Return Investing:

A huge challenge in the wealth management industry today is that far too many "goals" are being pursued in terms of "Relative Performance" or the "Portfolio Strategy" (ie: Income, Growth, Income/Growth). Beating the index by 100 basis points is not a measurement of success in achieving a goal; it's a means of measuring the success of a money manager against the market and is only one factor in a client achieving their goals. Similarly, managing a Growth portfolio is not a goal; it's an investment strategy to help a client meet their goal!

Clearly defining a client's goals, in terms of time horizon (ie: short, medium & long-term) and quantity (ie: how many dollars) is the only way a true Investment Professional - subject to each client's tolerance for risk – can begin to construct portfolios for clients that are designed to satisfy those goals.

2. Policy Vacuum:

In our experience, many of the investment policy statements in the marketplace today are either absent or marketing tools instead of professional documents designed to capture a client's stated set of investment objectives, risk tolerances and portfolio constraints.

Although the content of Investment Policy Statements (IPS) can vary, we have always viewed the core elements required in order to design a portfolio solution to be :

Investment Objectives

The purpose of the portfolio in order to meet a financial goal.

Risk Tolerances

Ability to tolerate risk in terms of both capital and income loss

Constraints:

- **Liquidity:** The definition of any short-term need for liquid funds
- **Taxation**: Tax issues to be addressed in the management of the portfolio
- **Legal:** Legal/regulatory issues to be addressed in the management of the portfolio

All clients who have portfolios "advised" or "managed" by an investment professional should demand an Investment Policy Statement…..it's the key document that outlines how your portfolio will be managed in pursuit of your investment objectives and risk tolerances; without it, you're "driving blind" and will have great difficulty reaching your investment goals.

3. Schizophrenic Investing:

Many investors have a "split mind" when they invest, which runs on the two modes of Greed and Fear. Specifically, in 'up-markets', they are obsessed with how they are performing on a 'relative basis' (ie: "Am I beating the markets?") and in 'down-markets', they become hyper-focused on downside performance in absolute terms (ie: "Get me into something safe!")

In our experience, such behaviours typically lead to "chasing returns" in up-markets and "avoiding risk" in down-markets…..or the equivalent of "buying high" and "selling low"…. which is never a recipe for creating sustainable wealth.

Instead, investors should truly strive to understand is their economic and emotional capacity to assume varying degrees of risk. While many investors may have an economic requirement for return, and may express a desire to reach for higher returns, they may indeed not have the capacity to assume that risk. This is an important, often overlooked, aspect of an investor that must be understood if an Investment Professional is to structure an portfolio structure

that aligns with an investor's goals while also not losing sight of the their tolerance for risk. It is an essential balance that keeps investors comfortable and committed to their long-term investment plans, through the 'ups-and-downs' of global capital market cycles.

4. **Island Investing:**

In the management of wealth – whether it's for family or institutional client such as pensions, foundations & endowments – is that far too many investment professionals overstate the importance of the "money management" side of wealth management. Clearly, the end result of any wealth management solution is that the client's assets need to be managed in a prudent and responsible manner but equally important, though, is the non-investment – or what we refer to as the "structural" advice – that surrounds the assets. In the case of a family, this could be the advice related to the design and implementation of investment holding companies and trusts while in the case of an institution it could be the design of an effective pension plan solution (ie: DC versus Group RRSP) or the governance structure overseeing a foundation.

At HighView Financial Group, we view investments as "vehicles" to help clients meet their financial goals but until the client goals have been clearly identified and the appropriate financial structures designed and implemented, it's difficult for a true investment professional to effectively design a tailored investment plan. In other words, it's the integration of both the structural advice combined with the investment advice that creates the holistic solution that so many clients are desperately seeking in the marketplace today.

For this reason, we believe that it is critical that investment professionals collaborate closely with clients' other professional advisors who provide such structural advice. This includes professionals such as financial planners, insurance advisors, employee benefit consultants, actuaries, accountants and lawyers.

5. **Conflicted Investment Solutions:**

With the consolidation in the global financial services industry over the past few decades, it's becoming increasingly challenging for investors to ascertain if the investment solutions that are recommended for their portfolios are truly objective and in the best interest of "the client" or the best interest of the "investment firm". Asset Management offerings — like any other manufactured item — are comprised of at least five (5) service components:

- **Individual Securities** (ie: the individual stocks and/or bonds)
- **Investment Management** (ie: the people who "pick" the stocks and/or bonds)

- **Brokerage** (ie: the people who trade the stocks & bonds for the Investment Managers)
- **Custody** (ie: the people who hold the clients' securities)
- **Portfolio Advice** (ie: the people who structure a portfolio to match your investment objectives & risk tolerances)

The challenge for investors is to determine if each of these services are being provided in the "best interest" of the client — ie: an objective, transparent and competitively priced manner. We certainly recognize the difficulty that most investors would have in being able to determine whether or not they're being treated fairly in such investment management offerings, so as a "Rule of Thumb", we always suggest that if ONE firm is performing MORE THAN ANY ONE of the above functions, you should be prepared to ask questions in order to provide yourself with the comfort that you're being treated fairly by all service providers.

Questions such as **"Why have you chosen that service provider?"** and **"How are their services priced compared to other similar industry service providers?"** typically should enable you, as the investor, to understand whether the service providers have been chosen for your benefit or your investment firm's convenience!

6. Portfolio Monitoring Gaps:

Once implemented, Investment professionals have an obligation to ensure that client's investment objectives are being pursued. This requires a strict adherence to each client's Investment Policy Statement.

At HighView Financial Group, we believe that in order to make a prudent assessment of how a client portfolio is being managed, it should be reviewed against its portfolio construction metrics such as asset allocation, security quality, diversification of holdings by individual securities and/or industry allocation, as well as an overall assessment as to historical portfolio returns against the account objectives.

Once a Client Portfolio Review has been completed, it's inevitable that from time-to-time various portfolio violations – asset mix, security quality, diversification – will be identified. As a result, we believe that every investment firm should give careful consideration as to their "follow-up" procedures in order to ensure that the client portfolio violations are rectified within a reasonable, and prudent, period of time. Alternatively, if an Investment Professional believes that such portfolio violations are in the best interest of the client, an updated, and signed, Investment Policy Statement must be obtained from the client.

7. Infrequent Reviews:

To ensure a client's investment portfolio continues to meet the objectives and risk tolerances for which it was designed, it is critical that three types of regular/periodic reviews occur:

Goals Reviews:

- Have the client goals that were previously identified and quantified (by value & time horizon) still valid or have changes occured?

Portfolio Reviews:

- Are the short-term cash flow needs being met? This is a critical component. If the short-term needs are not being met, then the longer term plans are of little value.
- Do the portfolios remain on-track to meet the medium and longer term goals and aspirations?
- Are the portfolios performing & behaving (ie: the 'ups-and-down') in a way that was anticipated?

Policy Reviews:

- Review with the client any changes in their circumstances that would necessitate a change to their portfolio structure and Investment Policy Statement.

As an Investment Professional, you want to avoid what a new client recently told me about his previous Investment Advisor: "My last quarterly portfolio review was 20 years ago!"

How Can HighView Help?

To ensure that these seven impediments do not impair our clients' abilities to create sustainable wealth, at HighView Financial Group, we've designed a unique three-step process called, **"The HighView Wealth Sustainability Process"** that includes:

- Comprehensive and objective **asset management** practices that have a broad range of solutions which avoid conflicts of interest,
- Integrated goals-based **investor profiling** using an asset-liability/balance sheet approach to crafting client portfolios, and
- **Stewardship** – or the oversight with various financial professionals of how client wealth is managed – all with a fiduciary mindset.