THE GLOBE AND MAIL

Couple must raise cash now, buy ETFs later

Vancouver couple with complex investments needs money for a bigger home

Andrew Allentuck | Thursday, August 13, 2009

In Vancouver, a couple we'll call Jocelyn, a businesswoman who is 44, and Max, a high-tech researcher who is 47, have two children ages 2 and 4. They want to move from their $360,000 condo to a house in the $650,000 price bracket and they need to plan for a retirement in 18 years when Max turns 65. They assume that their kids will go to post-secondary education and want to provide financial support to them when the time comes.

They have a $146,400 annual income.

"We have two planning problems," Jocelyn explains. "We have a lot of investments, but the problem is that many of them are long term, like stock funds, yet we want to be able to take money out for the house when we find one we like."

Facelift asked **Nigel Roberts, a chartered financial analyst and head of Bluenose Investment Management Inc.** of Oyama, B.C., to work with Max and Jocelyn to focus and rebalance their portfolio.

"The couple want their portfolio to do better," Mr. Roberts says. "They want to reduce fees they pay for mutual funds and they know they have to build retirement savings. Their employers provide no pension plans for them." The couple's RRSP and cash portfolios have a value of $464,099. They include $231,275 in non-registered accounts that hold mutual funds, cash, non-registered stocks, GICs and cash. Their children's registered education savings plans are separately invested for long-term growth and are not part of this analysis.

CURRENT PORTFOLIO		
CATEGORY	**VALUE**	**ASSET TYPE**
Jocelyn		
Non-registered assets	$215,475	4 banks, 1 utility, 1 individual
RRSP account	$127,824	2 banks, 10 specialty funds, GICs
Max		
Non-registered assets	$ 15,800	cash
RRSP account	$105,000	2 funds, cash
TOTAL	**$464,099**	

The planning and management problems for the couple's portfolios of registered and non-registered assets can be summed up as bad timing. They need money to buy the house they want and they need money for retirement and post-secondary education for their children.

To get cash to buy their house, all of the investments held outside of registered plans should be sold fairly soon. Getting a definite amount of cash will make it easier to buy the house. All funds realized can be put into a high-interest savings account at a Canada Deposit Insurance Corporation-insured institution that pays at least 1-per-cent interest a year, Mr. Roberts advises.

Jocelyn's RRSP has a variety of specialty funds invested in such things as stocks expected to have growing dividends; European stocks; entertainment and communication stocks; health sciences stocks; science and technology stocks; energy companies; and stocks listed on the Nasdaq. There is overlap and, with that, a sense that these funds were bought as Jocelyn's investing concepts evolved over time. There is no clear sense of asset allocation, Mr. Roberts observes.

Max and Jocelyn should consolidate their RRSP accounts so that each has only one RRSP. That will make it easier to manage their funds. There will be less paperwork and tracking investments should be easier, Mr. Roberts notes. Jocelyn's RRSPs hold 77 per cent of their value in equity assets, 18 per cent in fixed income and 5 per cent in cash. Max's RRSPs are 7 per cent equity, 51 per cent fixed income and 41 per cent cash. There is no evident strategy, Mr. Roberts adds.

Within the RRSPs, Jocelyn and Max recognize the need to adjust their long-term asset allocations. But they disagree on how much volatility to accept. Jocelyn accepts relatively high levels of volatility in order to get higher returns than fixed-income investments offer. Max is very conservative and unwilling to accept even brief losses in the paper value of his investments. They manage their portfolios separately.

Given their independent management styles but acknowledging that Max strongly prefers fixed-income investments, the RRSP portfolios should be rebalanced to achieve 75 per cent equity and 25 per cent fixed income in Jocelyn's RRSP and 50 per cent equity and 50 per cent fixed income in Max's RRSP.

Her rebalancing should include more diversification to achieve an expected return of 7.5 per cent over time with the assumption that inflation will run at 2.5 per cent per year. Max's allocation would be expected to produce a 6.5-per-cent average annual return with the same inflation assumption, Mr. Roberts says.

Neither partner is prepared to do research. Rather than pick stocks, the couple use ETFs and low-fee mutual funds. They can use bond ETFs with fees that are as little as an eighth of the average fees for bond mutual funds.

The transition from a complex portfolio built on stock and mutual fund picking to one that is relatively simple and based on low-fee, broad category exchange-traded funds, should be done as the market creates opportunities, perhaps in September or October, when, by tradition, markets weaken, Mr. Roberts says.

"As the size of their portfolio grows over the next few years, the couple should consider the services of an investment counsellor if they want to take a less active role in the day-to-day management of their portfolio," Mr. Roberts suggests. "They should discuss these suggestions with their own adviser."

REBALANCED PORTFOLIO

CATEGORY	VALUE	ASSET TYPE
Jocelyn		
Non-registered assets	$215,475	High interest savings acounts
RRSP account	$127,824	ETFs: iShares S&P/TSX 60, iShares Hedged S&P 500, iShares Hedged MSCI EAFE, Claymore bond ETFs, Term Deps., AGF Emerging Mkts Fund
Max		
Non-registered assets	$ 15,800	High interest savings accounts
RRSP account	$105,000	ETFs: iSharesS&P/TSX 60, iShares Hedged S&P 500, iShares Hedged MSCI EAFE, Bond ETFs, Term Deps, AGF Emerging Mkts Fund
TOTAL	**$464,099**	