VOTED THE WORLD'S BEST INVESTMENT ADVISORY

Investor's Digest of Canada

October 5, 2018 Vol. 50, No. 19

'Best Buys' from leading analysts

Analysts follow as many as 20 stocks, most of which are rated "buys." Of those buys, an analyst has one or two special favorites seen as most suitable for new buying. This column is devoted to those one or two favorite "best buys."

To individual investors who want to direct their own finances but lack the knowledge and expertise of the pros, author and retired investment banker Larry Bates urges them to keep things simple.

"I don't have any really short-term views on the market other than the perspective that one should not be surprised by volatility at any time. Real investing is long-term ownership of businesses through the stock market, not timing the market. Three or four ETFs can give the average investor all the exposure they need."

Mr. Bates entered Canada's finance industry in the early 1980s, when the jargon of the day described it as made up of "four pillars", namely banks, stock brokerages, insurance companies, and trust companies. As it turned out, his first four jobs brought him to each type of institution. "I had a great early schooling across the spectrum of the financial industry," he says.

At RBC Capital Markets, he worked in fixed-income and bond markets for 23 years, until 2010. Mr. Bates then moved to the Bank of Nova Scotia before leaving the banking industry in 2015. Since his departure, he has worked as a consultant and wrote *Beat the Bank: The Canadian Guide to Simply Successful Investing*, released on Sept. 15 online and in bookstores. He is also a member of the Ontario Securities Commission's investment advisory panel.

Although Mr. Bates dealt with large, sophisticated institutional investors in Canada and abroad rather than personal clients throughout his lengthy career, his new book addresses the concerns of average retail investors. *(See page 400 to read an excerpt.)*

The author says he wrote *Beat the Bank* with two goals in mind.

Firstly, "The book is meant to be a bit of a wake-up call," drawing attention to the inefficiency of the Canadian mutual fund industry. "There's nothing wrong with mutual funds in principle," says Mr. Bates. However, he adds, almost all charge "outrageous fees" that eat away a high proportion of gains, especially when compounded over time. Mr. Bates further criticizes the financial sector for not clearly explaining mutual fund management costs.

"Bay Street never presents the bill. They never tell the clients what the impact of the fees are, because they're devastating. The five million Canadian investors out there are just blind to it."

Secondly, the book provides average investors with sufficient understanding of the market to give them the confidence to make the change to lower-cost investments, become informed consumers, and make better choices for themselves and their families, Mr. Bates says. "It can be very simple and…this sort of decodes the mystery of investing so investors can keep more of their money."

Mr. Bates urges average investors to avoid buying mutual funds in favour of index-based, exchange-traded funds within a self-directed brokerage account, thereby keeping costs minimal and gains compounding while maintaining diversification. "Robo-advisors are a great alternative as well," he says.

Investors should be conscious of when they plan to cash in (the longer the wait, the more volatility is acceptable, and a dive of 20 per cent to 30 per cent is normal) and need to build resistance to stock setbacks with bond ETFs, according to Mr. Bates. Their personal risk tolerance is also key to answering "the critical portfolio composition question," he adds. "It's critical, with the asset allocation between fixed-income and stocks, that the investor can carry through volatile markets, ugly markets, without panicking and selling."

Early this year, ETF provider Vanguard issued several "one-stop ETFs for retail investors" made up of different strategic asset allocations and among Mr. Bates's "best buys": the **Vanguard Balanced Portfolio ETF** (VBAL-TSX, $25.08), **Vanguard Conservative Portfolio ETF** (VCNS-TSX, $25.02), and **Vanguard Growth Portfolio ETF** (VGRO-TSX, $25.14). (The balanced portolio is 60 per cent equity and 40 per cent fixed-income investments. The conservative portfolio pushes fixed-income to 60 per cent while the growth portfolio increases equities to 80 per cent.) "They're great products and I expect we'll see more of those to come," says Mr. Bates. Each ETF is made up of an all-encompassing mix of U.S. and Canadian stocks and bonds, as well as assets outside North America. At the same time, all boast a management expense ratio of just 0.22 per cent.

Despite his enthusiasm for Vanguard's new asset allocation ETFs, Mr. Bates says of other issuers such as BlackRock and the Bank of Montreal, "All of them have groups of ETFs that you can build a total portfolio from. As long as they're from a trustworthy major institution, I think they're going to be fine."

Bullish on long-term North American growth generally, Mr. Bates says the future of Canadian banking is a particular bright spot, ironically because of the same protections and market dominance that allows banks to charge clients excessively. The best revenge? "Be the banker," he says, and buy ETFs made up of bank stocks.