



Financial Services

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Dear Clients and Friends...

2015 was a difficult one from an investment performance point of view and I expect that increased volatility will continue for the foreseeable future. Therefore I believe now is the time to implement some or all of the new strategies I have been writing about over the past year:

1. Select a Tactical Investment Fund (TIF) for your various accounts
2. Set up "Fee for Service" (FFS) investment management cost program, and
3. If applicable, replace current Trustee Services with Worldsource Financial Management

Tactical Investment Funds

Prior to 2008 it was widely accepted in our professional community that while traditional diversification techniques *cannot eliminate risk*, diversification was an important component that may *minimize risk* and may aid in minimizing portfolio losses. After the 2008 market crash, it was clear to me that a diversification technique by itself was not enough to minimize losses in world that was displaying increased volatility and risk of loss to investors. Therefore I started a new investment strategy. I concluded that *in addition* to diversification techniques, a tactical asset allocation strategy was needed *as well*. In this context "tactical" refers to the belief that certain asset classes perform better than others in certain market conditions. The "strategy" means to adjust the concentration of various asset classes, sometimes significantly, so that the client's account had the potential to receive the best possible outcome as the market cycle evolved. Very few tactical programs were in place in 2008 and this style was not "accepted" as a viable strategy at that time. Market volatility in subsequent years declined from its peak in the fall of 2008 which allowed me to take the time required to do my own research and bring customized portfolio recommendations to you. This approach was relatively successful and in general terms investment conditions did not necessarily warrant a review meeting for at least six months or longer into the future.

Today there are numerous global economic issues that have increased market volatility so much that it is important to make adjustments as quickly as possible, where appropriate. Since I do not have discretion to make changes to your accounts without your prior knowledge, understanding and consent, a significant amount of time could elapse before a review meeting is arranged. On the other hand, the Fund Manager of a Tactical Investment Fund *has the discretion* to make changes to the portfolio in reaction to or in anticipation of both positive and negative economic or market events. If for example the Portfolio Manager decided to increase the cash weighting in the fund from 10% to 12% on a specific business day, any of your accounts that were allocated to this fund would also be affected by that change at the same



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time. If one singular TIF was used for an account of yours, an RRSP for example, the asset allocation of your RRSP would be identical to that of the TIF at all times.

There were only a handful of Tactical Investment Funds in place in 2008 but many more have been developed over the years. The management style and product design is now very much “accepted” within our industry. As I’ve reported in prior newsletters I’ve conducted my own research of twenty (20) different tactically managed investment products and have concluded that there are several that have been very successful. In my opinion, implementing a tactical asset allocation strategy using a specific Investment Fund is very important and I recommend that approach be used in your portfolio.

If you decide to transfer the investments in your account(s) to a new TIF product here are the most important points to highlight of the process:

- I will help you select the right Tactical Investment Fund to achieve your risk tolerance and your income and growth objectives.
- There will no cost¹ to transfer your account to a new TIF
- Only FEL or “free and matured” investments will be used.
- Once any remaining DSC investments mature, we would contact you to communicate your opportunity to transfer these investments as well. It is my policy that a matured DSC investment will always maintain a “free” status with our clients.
- You have no obligation to remain invested in a TIF for any period of time².
- Behind the scenes, instead of creating a customized account for you, I would continue to monitor the design, management and performance of a large group of Tactical Investment Funds. I would meet with Fund Management personnel from time to time and report highlights of any changes made within the fund to you on a regular basis.
- If I found that a better opportunity or management style emerged with a different fund, that information would be communicated to you and you would be provided with an opportunity once again to make a change.

Management Cost and Fee for Service

In addition, we plan to examine the current management cost of each of your account(s) to see if any improvement can be made. This may be accomplished, in part, by the use of our new “Fee for Service” (FFS) program for those accounts that are eligible.³ At the present time (Dealer/Advisor) compensation is determined by each fund company and is disclosed in their Prospectus and Fund Facts document...ie: neither you nor I have any control over how much is paid.

When a FFS program is used, the Fund Company sets only their management cost and the cost for Dealer/Advisor services is established independently between you and me. In fact a document is signed by you which will identify the agreed to Dealer/Advisor compensation. As a result those costs will get

¹ The transfer of a non-registered account will create either a capital gain or loss for tax purposes. Our office will provide you with an estimate of that value at our meeting

² A short term trading fee of 2% of the value transferred out within 30 days of purchase may be charged by the Fund Company.

³ A minimum value of \$50,000 of “free” investments is required in each account to be eligible for a Fee for Service program.

listed on your statements which I believe offers a more transparent and healthier approach to our business relationship. For non-registered accounts, according to CRA guidelines⁴ it's possible that the Dealer/Advisor management cost can be classified as "investment counselling fees" and therefore deductible for tax purposes. Each investor however is advised to seek independent accounting and tax advice to confirm eligibility and our reference to this potential tax deduction should not be considered a formal opinion or tax advice.

Trustee Appointment of Worldsource Financial Management (WFM)

When I joined Worldsource in 2007 as my Dealer they also provided Trustee services similar to B2B Bank Financial (formerly M.R.S. Trust Company). However a large number of my clients used B2B as their Trustee and I had no reason to alter that relationship. Over the years I've struggled with B2B's services and I have suggested to new clients to designate WFM as Trustee. Unfortunately my service experience with B2B over the past year or so has not improved and so at this time we are encouraging all remaining clients to appoint WFM as Trustee. Our office will prepare all the documents needed to complete this transfer.

There will be an administration cost for this process but in partnership with Worldsource, up to \$150 plus HST per account will be covered through our transfer-in program. Since Worldsource is my official Dealer and is required by regulation to send our statements on a quarterly basis, appointing them as your Trustee will eliminate the duplicated statement from B2B. The reduction in the amount of paper may help to simplify your financial life!

Proposed Meeting Time

These are the major topics I would like to discuss with you, and if it is convenient, **would you confirm if we could meet at the following time**, and if not, give me a call as I would be happy to make other arrangements. If an earlier time is preferred just let me know and I'll try to accommodate your needs:

Date: _____ Time: _____ Location: _____
You may need to set aside as much as 90 minutes for this session.

If you are planning to make a contribution to any account, let me know so I can prepare the necessary documents. Due to the anticipated length of this meeting if there are any other financial, retirement or estate planning topics you would like to address, please let me know so I can accommodate the extra time in my schedule.

The holiday season has come and gone and I hope you found some time to rest and enjoy some time with family and friends. May I extend best wishes to you for good health, happiness, and I look forward to meeting you soon!

Regards

Steve

Stephen G. Fricker
Sf/

⁴ CRA Interpretation bulletin IT-238R2, "Fees Paid to Investment Counsel", paragraph 20(1)(bb)

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