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The Twilight Zone

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I used to love watching Rod Serling's The Twilight Zone. Although the show is a little older than I am, I still enjoyed watching it, for the same reason younger viewers today might: we've all been there, at that moment in time when we unexpectedly find ourselves inside a reality that is far removed from all our preconceived notions of what it should be. The world of financial services can land one in a Twilight Zone type of experience, especially when it comes to engaging the services of a financial advisor. The reality of the situation not lining up with expectations can lead some to believe this unpleasant feeling of being in the Twilight Zone can be avoided by either switching advisors regularly or handling financial matters on their own. It doesn't have to be that way, however, and you don't need to go it alone when it comes to addressing your financial goals.

"Imagine, if you will" is how Rod Serling always introduced his stories – allow me to borrow that a few times. Imagine, if you will, a person like me, average in so many ways, walking down a rapidly darkening street on an afternoon very late in autumn. Suddenly, out of the shadows steps a man whose face is hidden by the wide brim of his hat; he says quietly but firmly, "Hey, you look like someone who'd be very interested in what I have to offer." The average passerby stops to listen, asking "what have you got?" "You look like a fella who knows quality clothing, am I right?" says the man in the hat. "I bet you like Armani suits and Gucci shoes." "Of course," says the passerby, "they're synonymous with quality and style, but they're also very expensive." "What if I could get you the latest Armani suit, the one that's on the cover of all the fashion magazines this month, for only $100, and throw in a pair of brand-new Gucci shoes as well?" asks the man in the hat, "Would you be interested?" "Sure!" says the passerby as he reaches for his wallet. "But wait a minute, how do I know you're on the level?" he asks. "They're here in this box, just reach in and feel it," replied the man in the hat. Sure enough, the soft feel of Italian wool and fine leather are unmistakable. What's more, even in the dim light the passerby can see the Armani label on the sleeve, and the shining tan leather uppers of the shoes. "It's a deal!" says the passerby; he hands over his $100 and takes the box from the man with the hat, who then disappears into the shadows.

The passerby rushes home with his new purchase, eager to take it out of the box. He imagines himself showing up wearing this new finery at his company's party in early December, and how he will be the envy of all his peers. Excited, he throws off the lid of the box and pulls the new merchandise out. The tags are still on the suit and shoes, there's no mistake they're new all right. But as this very average gentleman – average height, weight, and shoe size – holds the clothing next to himself, he realizes he is now the proud owner of a men's extra-large and tall Armani suit, and size 13 Gucci shoes. Ladies and gentlemen, our passerby has entered the Twilight Zone.

"Foul!" most of you will cry at this obvious deception. But is it? The man was asked if he wanted to get a good suit and pair of shoes for a great price; he said he did and that is exactly what he got. The objectionable issue isn't the quality of goods – it's the fit that matters.

Financial products are just like that. Bad products are, by definition, ones that nobody wants, and they fall off the shelves pretty quickly. The ones that remain can be good, if they are matched to the right buyers. That's where a good financial advisor distinguishes him or herself from the average or bad – by matching the right clients with the right products and, like a tailor, doing that extra bit to ensure that the product fits just right. What's more, the good advisor won't disappear into the shadows after the sale, never to be seen again, but will keep coming back year after year to check the fit and see if adjustments need to be made or if a brand-new product is in order.

In a nutshell, a good financial advisor is someone that helps you to identify and prioritize your goals, creates a plan to help you achieve those goals, and helps you select the right products. What's more, a good advisor will be there to tell you not to do anything that may sound great but in fact has a great risk of making none of your goals attainable. From Bre-X to Bitcoin, too-good-to-be-true opportunities have proven to be just that, but only discovered to be false promises after the money has left the investor's hands.

Getting clients the life insurance protection they need to ensure goal funding in the event of an unexpected death is a top priority for the good financial advisor. Many of us are keenly aware of how challenging life can be on two incomes; the sudden loss of one of those cash flows, even if it's only temporary due to illness, without the support of an insurance payout most definitely means that life will have to change and not for the better. Some goals will have to go. Solid life insurance coverage, therefore, is a critical component of everyone's financial plan.

Imagine, if you will, however, the need for an acceptable investment return in your RRSP, TFSA or other long-term savings plan. The quest for better investment returns is often what pushes people into the Twilight Zone. US-based DALBAR, a leading financial services market research firm, publishes a survey every year, and every year the conclusion is the same: "Investment results are more dependent on investor behavior than on fund performance…. [F]und investors who hold on to their investments are more successful than those who try to time the market" (**https://www.dalbar.com/QAIB/Index**). The study finds that, over a 30-year period, the annualized return of the S&P500 Index was 10.16%; equity investors, meanwhile, earned only 3.98%. And while the Bloomberg Barclay's Aggregate Bond Index earned an average of 6.34% per annum over the same period, investors in fixed income funds earned only 0.57%. Investors in asset allocation funds earned a measly 1.85% per year over this 30-year period. What pushed these investors into the Twilight Zone? According to DALBAR, 50% of the cause is attributable to psychological factors – the impulse to time the markets. Apparently, investors aren't very good at that.

The good financial advisor primarily earns his or her keep by stopping clients from making these emotional decisions that ruin rates of return, by saying "don't do that" and by helping to set and manage realistic expectations. For growth-oriented investors, a long-term rate of return that is approximately 4% over and above the average risk-free rate (i.e. the average 1-year Treasury Bill rate) is effective compensation for giving up the opportunity to spend that money on TVs, smartphones and dinners at the Keg. So, if you're looking back on the last five years and you earned on average better than 5% per year after fees, you've done just fine: the average yield on 1-year T-Bills over that period was just 0.93% (**www.bankofcanada.ca**). Don't let your neighbour's alleged rate of return or an aggressive advisor's sales pitch push you into the Twilight Zone.

A good financial advisor has many tools at his or her disposal to get you on track to achieving your long-term financial goals, along with good explanations for why you should avoid trying to time the markets or get in on the latest investment craze. I'm here to help you set realistic goals and keep you on track. Call or e-mail me any time.

All the best,

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