Letting a pro manage your money

MONEY 301 | It's no surprise investment counsellors are the rage, says **Ellen Roseman**

Some investors make all their own decisions. They open accounts with a discount brokerage firm that offers no advice.

Others work with an adviser — a banker, stockbroker or mutual fund specialist — who consults them about what to buy and sell.

A select few opt for discretionary money management. This means letting a professional make buying and selling decisions on your behalf.

Discretionary money managers, also known as investment counsellors, traditionally cater to those with larger portfolios.

You need to hand over at least $500,000 to $1 million for a segregated account, one tailored to your personal circumstances and risk tolerance.

But you can still get the benefit of discretionary money management with a smaller amount to invest. Your money goes into pooled funds, similar to mutual funds in structure, but with a minimum investment of $150,000.

"There is no sales fee involved in buying a pooled fund," says the Investment Counsel Association of Canada at its website (www.investmentcounsel.org), "and the management fee is generally in the range of 1 per cent."

That's one to two percentage points less than what you would pay in annual management fees for mutual funds.

The difference may sound small, but it adds up.

Let's compare a $150,000 investment in two Canadian equity funds. One has a management fee of 1.5 per cent a year and the other has a management fee of 3 per cent.

Both have the same growth of 7 per cent a year (before fees). After 25 years, the first fund is worth $565,000 and the second is worth $390,000.

That $175,000 gap is a more visible demonstration of the damage that high fees can cause.

We worked it out using the mutual fund fee impact calculator at Investored.ca, a website set up by the Ontario Securities Commission to help investors get informed.

Portfolio managers and investment counsellors must be registered with the Ontario Securities Commission. They must earn the coveted designation of chartered financial analyst (CFA), which has three levels of courses and exams. (About half the candidates don't pass.)

Their only business is to manage money for individuals, estates and trusts, charitable foundations, corporations and pension funds.

Here's a profile of a new investment counselling firm in Barrie (an hour's drive north of Toronto). It's run by a husband-and-wife team, Cory Venable, 42, and Danielle Park, 40, who had both worked for a large national brokerage firm in Toronto.

"Although the firm is based out of cottage country," says client Terry Thompson, "it attracts people like ourselves who are from the GTA and find them by referral or through their website at www.venablepark.com."

The firm has an unusual philosophy. It combines index investing, tactical asset allocation and low costs.

Venable Park buys and sells only exchange-traded funds that are based on diversified stock indexes — such as the S&P/TSX 60, Nasdaq 100 or S&P 500.

By staying away from individual stocks, it tries to protect clients from company-specific risks — such as CIBC's huge Enron settlement that caused the share price to drop 15 per cent in one day.

Cory Venable, a certified market technician, uses a quantitative system he devised to tell whether equity markets are oversold or not.

When stocks look dangerous, he moves clients' money out of ETFs and into money market funds.

Howard Gwinn, an executive coach who lives in Shanty Bay, Ont., said he started to do research into ETFs as a potential investment strategy last year.

"I became disenchanted with hype, high management-expense ratios and low returns in the investment community," he told us.

"When I was referred to Venable Park, I immediately recognized that their service is unique and refreshingly client-focused."

Danielle Park trained and worked as a lawyer in Ottawa. She decided to change careers in 1997 after moving back to Barrie, her home town.

But the brokerage business didn't suit her. "It's so much a sales culture," she says.

Quitting after only a year, she decided to become a portfolio manager. She got her CFA in 2003, along with the certified financial planner (CFP) designation.

With two young children, ages 6 and 7, Park and Venable have made a big investment in starting their own business.

They gave up high-salary jobs, with generous benefits and pensions, and downsized their home. Now, they're within walking distance of their office in downtown Barrie.

Venable Park is actually a branch of another firm, J.C. Hood Investment Counsel Inc. of Toronto, which started five years ago.

Founder John Hood also came out of the brokerage business. His money management philosophy is similar to that of Venable and Park.

"Most investment counsellors are active managers and stock pickers," he says. "That's the way they've been trained."

Instead of analyzing companies from the bottom up, Hood takes a top-down approach to investing. This means figuring out which way the economy and markets are going before deciding which securities to hold.

By using exchange-traded funds exclusively to build clients' portfolios, he keeps costs low.

Barclays Global Investors, which markets the iUnits exchange-traded funds, was the matchmaker for the merger.

"I got a call one day, saying this couple seemed to be on the same page as I was and there could be some synergies," Hood recalls.

He's the senior portfolio manager, who oversees the practice out of his home office in Scarborough, and is also responsble for compliance.

Unlike many investment counsellors, he welcomes families with combined assets of $250,000 and up. All accounts are managed individually, not pooled into large funds.

Check his website, www.jchood.com, for a frank discussion of high fees and how they hurt clients saving for the long term.

His annual fee is 1.2 per cent on accounts of $250,000 to $1 million, scaling down to 0.8 per cent for accounts with $2 million or more.

Venable Park charges 1.5 per cent for accounts under $500,000, 1.25 per cent for $500,000 to $1 million, 1 per cent for $1 million to $2 million and 0.75 per cent for more than $2 million.

As well as managing portfolios, Park does financial planning for clients at no extra cost. She also finds time to teach business courses at Georgian College.

She and her husband have about 100 households as clients. They put out a monthly newsletter, giving their views on where the market is going (posted at their website).

"We're big on giving service and making people feel they can ask questions," she says.

But most important is protecting clients from losses, trying to cover the downside risk.

"Many people who come to us said they haven't made money for eight years, but they're just back to where they were before. Their blind faith in the market has gone."

Ellen Roseman's column appears Wednesday, Saturday and Sunday. You can reach her by writing Business c/o Toronto Star, 1 Yonge St., Toronto M5E 1E6; by phone at 416-945-8687; by fax at 416-865-3630; or at eroseman-@thestar.ca by email.