



**information
indépendante
investisseur**



**information
independent
investor**

PRESENTATION TO: OPTIMUS INVESTMENT CLUB

Investment clubs & the indexing paradox

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WWW.INVESTISSEURAUTONOME.INFO

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INDEXING PARADOX

- Just as an athlete may identify his/her worth based on his/her performance in his/her sport, so might an active investor's identity being tied to his/her performance in the stock market. For such investors, index investing would be too boring, it would not be a game. To them, actively investing in the stock market is a game. David Eagle, doc.896, doc.897

MEETING PROCESS

- Français.
- Time.
- Questions.



AUDIENCE

- Personal portfolios?
- DIY investors?
- Index investors?
- Work in financial services?

PRESENTATION OVERVIEW

- Part 1-Introduction to my site
- Part 2- The individual investor
- Part 3- My philosophy
- Part 4- Investment club particulars

Part 1- About my site

- www.independentinvestor.info
- www.investisseurautomome.info



IN GENERAL

- Provide individual investors with independent, objective and unbiased information to help them better manage a portfolio intended to constitute an important source of retirement income.
- Bilingual.
- Does not seek to manage your portfolio nor to sell you any financial products or services.
- Independent of the Top10; see **The financial System.**

IN GENERAL (2)

- 2+ years in the making.
- Launched 18 03 2008.
- Media coverage.
- Few objective, independent and unbiased Canadian information sources.
- Even fewer bilingual sites.
- Newsletter: 2,300 on mailing list at year-end 2008.

FOUNDER – MARC J. RYAN

- Not an investment professional.
- Graduate- McGill (engineering) and Université de Montréal (law and masters).
- Lawyer with the Québec Securities Commission.
- 26 years as securities counsel and executive with BCE and Bell Canada.
- Consultant.

DISCLAIMER

- Not registered as a broker or investment adviser.
- AMF cross-link
- Help you become a better investor, not to make actual investments.
- Not necessarily up-to-date.
- Under permanent construction- errors are inevitable.
- Do not rely on any single source, including our site.
- Read the **Terms of use** of our site.

FEATURES OF OUR SITE (1)

- Comprehensive base of information sources on all facets of independent investing.
- Commentaries on DIY investing from the point of view of the independent investor: See **home page** and **Archives**.
- Weekly newsletter on current events
- RSS web feed.
- Investing-related quotes within site and in newsletters
- Bank of 1,200 (and counting) PDF documents : see **PDF Documents search**.

FEATURES OF OUR SITE (2)

- Encourage independent investing as a hobby, retirement project...or just for the fun of it.
- If you have the profile of an **Independent Investor**.
- Focuses on strict controls over your investment expenses: see **Costs of Investing**.
- Maximize your RRSP/TFSA and how you use it.
- Help you concentrate on what you can control.

FEATURES OF OUR SITE (3)

- Provides (Swensen/Ferri) criteria to evaluate Alternative Investments.
- Become mini institutional Investors with non-sector ETF's.
- Adopt realistic expectations through benchmarking: see **investment returns and indexes**.
- Saving is Job One.
- **Pocket money**- for damage control.

INFORMATION

- The raison d'être of our site.
- 11 Themes and 44 sections- see **Themes**.
- Why so much theoretical information? To change engrained habits.
- Most investors need a sound overall approach, not a deluge of piecemeal, instant information (noise).
- The challenge: comprehensive information vs. ease of use: see **First Visit?** and **User guide**.

ACTIVELY-MANAGED MUTUAL FUNDS

- Our site gives many objective, independent sources commenting on actively managed mutual funds.
- Our conclusion: these products should not be a preferred investment for the typical independent investor.
- Our site gives no information on these products.

PART 2-INDIVIDUAL INVESTORS



REGULATORY BACKGROUND

- Does not encourage independent investing- ex.- Canada bonds.
- See **Strategy for structural change (long-term)** and **Possible strategies for the individual investor (short-term)**
- Does not encourage competition: ex.- foreign mutual funds, bank ownership limits.

BACKGROUND NOISE

- *Read, watch and listen all you want, because there is no more fascinating, dynamic and surprising show in the world. But never forget that intelligent investing has nothing to do with the daily market show. You can't learn to hit a forehand like Roger Federer by reading a tennis magazine. And you can't learn to invest like Warren Buffet by reading a newspaper or watching TV. **Henry Blodget***
- What about investment clubs?

Good news for DIY investors

- *There is a crucial difference about playing the game of investing compared to virtually any other activity. Most of us have no chance of being as good as the average in any pursuit where others practice and hone skills for many, many hours. But we can be as good as the average investor in the stock market with no practice at all. **Jeremy Siegel***

THE FINANCIAL LANDSCAPE

- Macro picture:
- Demographics and longevity risk of outliving your money
- Defined benefit plans out of favor.
- Excessive costs of the Canadian financial system.
- High marginal tax rates.

THE FINANCIAL LANDSCAPE - continued

- New financial products easy to invest in.
- Discount brokerage industry.
- Increasing acceptance of the efficient market hypothesis.
- PC and internet revolution.

TODAY'S TYPICAL INVESTOR

- Uses a Top10 entity.
- Actively-managed mutual funds. The most expensive in the world are in Canada.
- RRSP's- traditional (vs. self-directed with a discount broker).
- CD's (vs bonds).
- Ignores his asset allocation/his portfolio.

TODAY'S TYPICAL INVESTOR- continued

- Full service broker?
- The utopia of individual stock picking
- Family residence- largest asset? An investment?
- Complex, illiquid or expensive products:
ex.- **index-linked notes.**

INDEPENDENT INVESTOR CHALLENGES

- Be realistic in assessing your ability to beat the market.
- Focus on your appropriate asset allocation and other key investing issues.
- Deal effectively with the Top10: see discussion in the **Financial System**.

CHALLENGES-2

- Better cost control- pay for what is important.
- Tax management is important.

Part 3- My philosophy

- See **About us- Our philosophy** on home page.

My philosophy- 1

- Self reliance is a virtue (for some).
- For your tomorrow, save today.
- Invest for the long term.
- Manage your longevity risk.
- Passive investing- is good (and boring, not exciting). Invest across stock markets generally.

My philosophy- 2

- Looking for help to pick next year's stock winners (the individual stock selection method) and "beat the market"? You are at the wrong place.
- Investment costs: of the system, of your intermediary, of your mutual funds. Every dollar counts- reducing investment expenses is key.
- One key factor- **asset allocation**- the 90% rule
- Compute and compare your returns.

My philosophy- 3

- Favor ETF's in which institutions invest. Optimizing the use of your RRSP.
- Recommend direct purchasing of bonds (especially provincial government bonds) rather than through collective investment vehicles.
- Optimize your RRSP.

Part 4- INVESTMENT CLUBS (IC's)

IC's- in general

- Association of investment clubs?
- Objective: become experts in DIY investing or in individual stock picking?
- How do club investments interrelate with personal investing: Individual equity stock picking at club level AND members are on their own for everything else?

Optimus IC

- Approximately 50 members
- Funds invested in Canadian and US stocks (80/20 split)
- Most members have personal investment portfolios
- Oldest IC in North America, meeting continuously since 1930
- Topics covered by speakers have included the ABCP debacle, why is the TSX still a buy, views of the 2007 market, oil & gas investments, investing in China among others

DIY INVESTOR PREREQUISITES

- Time available? Active vs passive?
Human capital-career priority?
- Your personality.
- Your degree of investment knowledge.
- Computers and the internet.
- Amount available for investment.
- Does IC participation help with these prerequisites?

IC impact on sport of stock picking

- Which of the following is most common?
- Members replicate club investments.
- Members add additional individual stock picks.
- Members retain expert to seek to beat the market in their personal investments.
- Members follow index approach to their personal investments (Pocket money approach).

DIY issues addressed by IC's?

- Long term approach to investing.
- Learn to avoid market timing.
- Develop self-reliance.
- Develop a saving routine.
- Learn how difficult it is to beat the market.
- Learn how to manage costs- full service vs. discount.

DIY issues not addressed by IC's?

- Asset allocation across asset classes.
- Diversification- geographic (origin of 80-20%).
- How to invest in debt securities: GICs vs individual bonds vs bond fund.
- Alternative investments.
- Managing longevity risk.
- Managing taxation.
- Currency risk and investments.

Year 2008 highlights

- See 2008 highlights for DIY investors in our recent commentary (see next slide).
- How many are addressed by IC's?

Selected DIY investor 2008 highlights?

- Bond returns
- TFSA
- ETFs vs MF's
- Currency movements
- Access to bond markets
- Residential homes and asset allocation
- Warts- PPNs, hedge funds and Madoff
- ABCP

The Rationality of Index-Investing vs. the sport of investing

- Ignorant investors go to full service brokers or financial planners for financial advice about investing their money. Since these brokers or financial planners earn more commissions on active investment options than indexing investing options they provide to their clients, or because the brokers or financial planners enjoy the *game* or *sport* of investing, they steer their clients in the direction of active investing instead of indexing. We in the finance profession must realize how much of our financial market place is determined by the marketing of financial services, which goes against market efficiency. David Eagle; doc.896, doc.897

END

- Merci de votre intérêt..
- Comments and/or questions.
- Become a member of our site: its free.





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