Your Best Investment

The best investment you can make is an investment in yourself.
Warren Buffett, CEO of Berkshire Hathaway

A little investing know-how can go a long way. Millions of Canadians have the potential to substantially increase their retirement nest eggs, and to live better lives as a result, by getting more from their investments. Beat the Bank will provide the insight you need to ensure that more of your investment returns end up where they belong - in your pocket!

You'll be the judge, of course, but I believe that, among the many surprises you will discover by reading this book, the most important will be how simple it can be to invest more successfully. Learn a bit, earn a lot. It's easy when you know how.

Mary
In early 2013 I was at my desk in one of the bank towers in downtown Toronto when I received a call from my sister Mary, regarding her investments. Approaching retirement and living in New Brunswick, Mary and her husband have university degrees, devoted their careers to the health care profession, raised two girls, and sacrificed to save a modest amount to supplement their pension income. The call went something like this:

Mary: "We haven't saved a huge amount, but every dollar of it will count when we retire. We don't understand why the mutual fund we own through our bank has gained so little over the past twenty years when we constantly hear about how well the market is performing. Can you have a look?"
Larry: "Sure. Let me check it out."
(With a few clicks I found the 'Fund Facts' description of Mary's mutual fund.)
Larry: "Mary, are you aware that your bank charges fees amounting to 2.3 percent a year?"
Mary: "Okay, but 2.3 percent of our gains doesn't sound like very much."
Larry: "No. Not 2.3 percent of your gains. Your bank charges 2.3 percent of your total investment. Every year."
Mary: "You mean they charge fees whether the fund goes up or down?"
Larry: "Unfortunately, yes. That's the way mutual funds work. And at 2.3 percent annually for twenty years, fees have eaten up 30 or 40 percent of your money!"

I was embarrassed. I felt ashamed of how my industry was treating my sister. Mary was shocked and upset. She felt betrayed. She made the mistake of unconditionally trusting her bank to treat her fairly. Instead, many thousands of dollars of her precious savings were lost. Mary would likely have experienced the same result dealing with any big bank or traditional mutual fund provider.

Millions of Canadian investors are just like Mary. What about you?

Bay Street

Most of Canada's providers of investment products and services-the top banks, insurers, and mutual fund companies-are headquartered on, or very close to, Bay Street in downtown Toronto. Just as the term 'Wall Street' references the entire US financial industry, the term 'Bay Street' has come to signify the Canadian financial industry and its armies of bankers, brokers, salespeople, and advisors across the country. There are two sides to the investment business: the 'investment banking' or capital markets business, where I spent my career focusing on large institutional investors as well as big corporations, governments, and financial institutions; and the separate retail investment business, which deals with individual investors like you and Mary. Whether you deal with a local investment advisor in Victoria, St.

John's or somewhere in between, you are ultimately dealing with Bay Street.

An Enlightened Banker

I have been blessed with good fortune and opportunity in virtually every aspect of my life, including my thirty-five-year investment banking career. I predominantly worked with RBC Capital Markets, both in Toronto and in London, England, where I had exceptional colleagues and incredible learning experiences while dealing with the largest and most sophisticated investors in Canada and around the world.

Prior to joining RBC in 1987, I worked for an insurance company (Sun Life), a bank (Scotiabank), a trust company (Canada Trust), and a brokerage house (Merrill Lynch Canada). This personal tour of the 'four pillars' of the Canadian financial system gave me a unique and unusually broad range of experience to apply to my new position on the Cross Markets Desk in RBC's bond department. No, we weren't a cranky bunch. 'Cross,' in this case, referred to our mandate to create new financial products and client solutions by using various markets such as bonds, stocks, currencies, commodities, and the rapidly developing derivative products that were beginning to link them all in inventive ways. We would construct $100-million financing deals, or even billion-dollar deals with multiple components, and value them literally down to the penny. And we could quickly reverse-engineer complex deals created by others and find the best bits to add to our toolbox. Without the burden of any daily product or client responsibilities, our happy little 'financial engineering lab' was unique on Bay Street-and the timing was perfect.

Sure, some ideas never took flight, but many innovations successfully delivered real value to large institutions, corporations, and governments. The Cross Markets Desk also produced very healthy profits for RBC as innovation and value creation enabled us to charge hefty deal fees. But markets evolved, and in the early nineties the Cross Markets Desk was disbanded and we all moved on to more conventional roles within RBC. After spending a couple of years leading a team covering large institutional bond investors, I helped create-and ultimately led-RBC's Debt Capital Markets Group, which specialized in handling the rapidly increasing volume of debt financing for companies and governments, totalling hundreds of billions of dollars annually. Over many years, my team was consistently #1 in Canadian market share.

Over the past three decades, as trading volumes increased, technology advanced, transparency improved, and clients became more sophisticated, fees declined dramatically across the capital markets business. Fees paid by large institutional clients in bond and stock trading, foreign exchange, derivatives, and other wholesale products and services are now a small fraction of their former levels.

Today, RBC and the Canadian investment industry generally provide large institutional, corporate, and government clients with highly efficient, low-cost products and services. I take pride in having conceived and developed a number of innovative investment products that significantly contributed to that efficiency.

But what about the other side of the investment business: the retail market? How efficiently does Bay Street deliver products to individual investors? Banks, brokers, insurers, and financial advisors provide individual

Canadians with access to stock and bond investments largely through mutual funds and other investment products that indirectly charge fat fees. Bay Street has done everything in its power to keep both the amount, and the impact, of those investment fees secret. As a result, very few Canadians understand how much they are paying for investment products and services, or how much value they are getting in return. And very few Canadians take the time to find out.

Why? There are several reasons:

* Unconditional trust in the advisor/institution
* Erroneously assuming there are no fees
* Not knowing the right questions to ask
* Fear of asking a 'dumb' question
* Not wanting to seem impolite
* Mistaken belief that the advisor/institution must act in the customer's best interest
* Disinterest
* "I just don't have time!"

In a financial system traditionally dominated by the six big Canadian banks, these institutions-and by extension the entire Canadian financial industry-occupy a position of paternalistic authority that too many individual investors respect unquestioningly, and even appreciate to some extent. The industry brilliantly capitalizes on the combination of poor understanding of fees, deep loyalty, and misplaced trust by charging Canadians the highest mutual fund fees in the world. Unlike the institutional business, fees paid by the great majority of individual investors have barely budged over the years.

Bay Street fees continue to quietly strip away 50 percent or more of the lifetime investment gains of millions of Canadians. That's right, 50 percent or more!

Imagine: you work hard, you sacrifice to save, you risk your money in the market over your working lifetime, you trust your bank or advisor to treat you fairly, but their fees silently consume the majority of your investment returns. Who would sign up for this kind of treatment? Millions of unsuspecting Canadians are doing just that. And I am not just talking about inexperienced, less educated investors. Countless doctors, lawyers, accountants, teachers, successful business owners, and bankers-yes, even bankers-are in precisely this position.

What Is Fair?

Like all businesses, the investment industry aims to make a profit. Providing access to investments is a valuable service, and Bay Street should be paid fairly for providing it. But what is fair? It depends on what value and service you receive-but losing close to half of your lifetime investment returns to fees is not fair. It's nowhere close to fair under any circumstances. Losing 50 percent or more of your investment returns is a catastrophic failure.

The impact of investment fees on Canadian retirement accounts is more than a consumer issue, it is a major social issue of our time.Government pensions will not be nearly enough to provide a satisfactory retirement lifestyle for most Canadians, and guaranteed employer pensions are rapidly becoming a thing of the past. In order to live well in retirement, you now likely need to build significant savings and make those savings grow through investment. So, while previous generations of Canadians with guaranteed pensions could casually observe the markets from the sidelines, most of us today must participate directly in the markets to secure a comfortable retirement.

In other words, *you, and only you, have the burden of responsibility to get investing right*. But the structure and practices of the investment industry continue to conspire against the ability of the average investor to succeed, to maximize that retirement nest egg. This compromises not only the financial well-being of individual Canadians, but also the health of our retirement system and of our society as a whole. The good news for millions of Canadians is that the path to a more rewarding investment experience and a more prosperous retirement can be incredibly simple and easily accessible. But how do you get there?

The industry fiercely resists change, despite the tireless efforts of many: regulators have been largely ineffective, educators have not picked up the ball, and a small band of investor advocates have largely been ignored. Something different needs to be done. Louder, stronger, and more provocative voices are needed.

I had never seriously considered the damage the investment industry wreaks upon average Canadians. But that conversation with my sister Mary made it very clear and very personal. It left me determined to do something about it. As an 'enlightened banker,' I aim to be one of those provocative voices, both calling out the industry and lighting the path to better outcomes for average investors.

The Boiling Frog

If you drop a frog in a pot of boiling water, it will of course frantically try to clamber out. But if you place it gently in a pot of tepid water and turn the heat on low, it will float there quite placidly. As the water gradually heats up, the frog will sink into a tranquil stupor, exactly like one of us in a hot bath, and before long, with a smile on its face, it will unresistingly allow itself to be boiled to death.
A version of the parable from The Story of B, by Daniel Quinn

What if Bay Street offered a product that made no secret of its 50 percent fees? Surely most investors would quickly make for the nearest exit. But Bay Street promotes its expensive products in soothing terms, charging only very small monthly fees or even smaller daily fees. As these seemingly tiny fees add up and compound over the years, investors simply don't notice.They take comfort in the false notion that their best interests are being served by their trusted advisor or financial institution and will unresistingly and unknowingly allow 50 percent of their investment gains to drain away.

Lucky?

I'm lucky. My advisor is an old friend. I trust him. He allows me to get into mutual funds without ever charging me a dime!
An unsuspecting investor overheard in a coffee shop

Before correcting a problem, you must first be aware the problem exists; and before pursuing any opportunity, you must be aware the opportunity exists. Beat the Bank makes clear both the problem of severe underperformance experienced by typical Canadian investors, as well as the potential for you to significantly boost your investment returns through an approach I call 'Simply Successful Investing.'

Simply Successful Investing
We all know there are no guarantees in life. The same rule applies to the investment world; no crystal ball can accurately predict your results, or anyone else's for that matter. But Simply Successful Investing will give you an excellent probability of significantly increasing, and in many cases doubling, your long-term investment returns compared to the average Canadian mutual fund investor.

There are three key elements to Simply Successful Investing:

1. Learn investment basics: Taking the time to acquire a solid understanding of the fundamentals of investing will empower you to make better choices and achieve significantly better investment results.

2. Think long-term: Investments offering the potential for attractive long-term rates of return do not produce steady returns. All but the lowest-risk, lowest return investments produce volatile rates of return in the short to medium term. Riding out the short-term highs and lows of the market can be stressful, but it is absolutely essential to your ultimate success. Achieving an attractive long-term rate of return on investments requires a long-term mindset.

3. Minimize costs: Your investment returns can be dramatically improved, not by attempting to beat the

market but by minimizing costs and keeping more of your market gains for yourself, even if they are just average gains. This step alone has the potential to double the long-term investment returns of millions of Canadian mutual fund investors.

There are countless things about investing you don't need to know: this book focuses on the few things you do need to know, and it will help you gain the confidence you need to utilize the Simply Successful Investing approach. Sounds good, right? But how much time will it take? You will be astonished at how incredibly easy, carefree, and liberating Simply Successful Investing can be. It can take as little as a few hours up-front, plus a couple of hours annually. That's it! So, skip a couple of reruns of Grey's Anatomy or Game of Thrones and learn how to direct your own real-life success story with Simply Successful Investing-you might even enjoy it!

The principles of Simply Successful Investing apply regardless of your investment objective and time frame. For example, you can very effectively apply the lessons you learn from this book to saving and investing to build a down payment for your first home. But the primary focus of Beat the Bank is applying Simply Successful Investing to the most important, and most daunting, saving and investing challenge of your life: financing your retirement.

Everyone has a slightly different vision of retirement. Like my father, Aubrey, some dream of an early, active, and lengthy retirement. Others, like my father-in-law, Bruce, continue working well into their eighties-not because they need to, but because they love it. What part of the vision do we all have in common? We all aim to have the freedom to choose. To retire or not retire, as we see fit, when we see fit, and to live a satisfying, rewarding lifestyle. If you end up working past traditional retirement age, it should be because you choose to, not because you have to. The greater your financial resources, the greater your ability to choose. Maximizing your future financial freedom-and feeling more confident and less stressed along the way-is the focus of Simply Successful Investing.