Behavioural Pitfalls of Do-It-Yourself Investing & How to Avoid Them

Presented by
The Dool Team of
RBC Dominion Securities
Behavioural Pitfalls of Investing

AGENDA

• Top ten mistakes
• Why DIY investors get into trouble
• Biggest DIY challenges
• Psychological pitfalls of investing
• Why you should work with a professional & how to find one
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Quotation

“To invest successfully over a lifetime does not require a stratospheric I.Q., unusual business insight, or inside information. What is needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework.”

- Warren Buffet
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It seems so easy…

…just log in to your self-directed investment account, tap, tap, tap in a trade or two and you’re done.

• Markets go up…you’ve got bragging rights!!!

• Markets go down…oh, oh…now what???
# Behavioural Pitfalls of Investing

## Annualized Investor Returns vs. Benchmark

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>20 Year</td>
<td>4.25%</td>
<td>8.21%</td>
<td>-3.96%</td>
<td>0.98%</td>
<td>6.34%</td>
<td>-5.36%</td>
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<tr>
<td>10 Year</td>
<td>6.05%</td>
<td>7.10%</td>
<td>-1.05%</td>
<td>1.17%</td>
<td>5.18%</td>
<td>4.01%</td>
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<tr>
<td>5 Year</td>
<td>-0.84%</td>
<td>1.66%</td>
<td>-2.50%</td>
<td>1.64%</td>
<td>5.95%</td>
<td>-4.31%</td>
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<tr>
<td>3 Year</td>
<td>7.63%</td>
<td>10.87%</td>
<td>-3.24%</td>
<td>2.85%</td>
<td>6.19%</td>
<td>-3.34%</td>
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<tr>
<td>12 month</td>
<td>15.56%</td>
<td>15.98%</td>
<td>-0.42%</td>
<td>4.68%</td>
<td>4.21%</td>
<td>+0.47%</td>
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</tbody>
</table>

Dalbar – March 2013
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Top ten mistakes of do-it-yourself investors

10. Performing coffee table financial analysis on publicly traded investments
9. Thinking that because you’re a small investor you’re a fast investor
8. Looking for patterns
7. Thinking you are one step ahead of the markets
6. Thinking that your $9.95 or $6.95 trades cost only $9.95 or $6.95
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Top ten mistakes of do-it-yourself investors

5. Busy life…forgotten portfolio
4. Having a bad plan, or having a good plan that you abandon
3. Lacking diversity
2. Making mistakes
1. Temptation over discipline
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Why do-it-yourself investors get into trouble

- The biggest factor in wealth creation:
  - TAX EFFICIENCY
- Spending time on the wrong thing:

Factors impacting portfolio long-term return

- Tax Efficiency 28%
- Time 26%
- Emotions 20%
- Asset Mix 17%
- Security Selection 2%

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The Biggest DIY Investment challenges

- Analysis paralysis
- Focusing on products
- Resisting simple solutions

If market goes down...
- Tactical portfolio to short
- No-brainer portfolio to average down
- Strategic portfolio to buy low

If market goes up...
- Tactical portfolio to long
- No-brainer portfolio to average up
- Strategic portfolio stays in cash

It is not what the market will do, but what you will do that matters.
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Eight psychological behaviours of investing

1. Optimism
2. Confidence
3. Hindsight
4. Obsession
5. Denial
6. Greed
7. Herd Instinct
8. Self-Attribution
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Buying high, selling low…

To generate gains all you need to do is buy low and sell high.
  - It’s actually a very difficult task
  - Trying to time the market
  - Missing a market recovery
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Why It’s Best to Stay Invested

Missing just the 10 best days in the market over the past 10 years would have reduced returns significantly.

-9% Staying invested
-1% Missing the 10 best trading days
-6% Missing the 30 best trading days
-10% Missing the 50 best trading days

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Not Rebalancing
- Set your asset mix and build a diversified portfolio
- Asset allocation drift
- Adjusting for significant life changes

Finding reasons not to invest
- The media will make sure you know what’s wrong
- Short-term events can be unsettling
- Selling out of the market and waiting for the next signal
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Why should you be working with a wealth manager

1. Advice has a positive and significant impact on financial assets

2. The positive effect of advice on wealth accumulation cannot be explained by asset performance alone: the greater savings discipline acquired through advice plays an important role

3. Advice positively impacts retirement readiness

4. Having advice is an important contributor to levels of trust, satisfaction and confidence in financial advisors – a strong indicator of value
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Why should you be working with a wealth manager

![Graph showing ratio of advised vs. non-advised current financial assets over years of financial advice]

- 4 to 6 years: 1.58x
- 7 to 14 years: 1.99x
- More than 15 years: 2.73x
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Why should you be working with a wealth manager

- Advisors add value by advising asset mixes that are right for the needs of their clients

### Asset Allocation - % share of investible assets

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Advised (%)</th>
<th>Non-Advised (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>23</td>
<td>44</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>24</td>
<td>13</td>
</tr>
<tr>
<td>Equities</td>
<td>54</td>
<td>42</td>
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<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
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</table>

20Numbers are derived from (2013 and 2014) Value of Financial Advice, prepared for RBC, October 4, 2013. Numbers are modified as follows: weightings for mutual funds are divided into equities and fixed income according to RBC estimates of 60% in equities and 40% in fixed income, and weightings for cash holdings accounts and IFA's are allocated to cash.

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Why should you be working with a wealth manager

More Retirement Income with Gamma-Optimized Portfolios

- 4% Withdrawal and a 20/80 Portfolio
- Gamma Optimized Portfolio

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Asset Location and Withdrawal Sourcing</td>
<td>$0.08</td>
</tr>
<tr>
<td>Liability Relative Optimization</td>
<td>$0.02</td>
</tr>
<tr>
<td>Dynamic Withdrawal Strategy</td>
<td>$0.09</td>
</tr>
<tr>
<td>Annuity Allocation</td>
<td>$0.04</td>
</tr>
<tr>
<td>Total Wealth Asset Allocation</td>
<td>$0.06</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$0.29</strong></td>
</tr>
</tbody>
</table>
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Deciding which type of advisor is best for you

Not all advisors offer the same services or have the same expertise.

- Financial Planner
- Insurance agent/broker
- Investment specialist
- Broker/investment advisor
- Investment Manager/Portfolio Manager
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Welcome to the Alphabet Soup of advisor credentials

Professional designations to look for include:

- **PFP**  Personal Financial Planner primarily for employees of chartered banks
- **FP**  Financial Planner in Quebec where the use of titles is regulated
- **CFP**  Certified Financial Planner recognized in 14 countries around the world
- **RFP**  Registered Financial Planner which is an advanced financial planning designation
- **CLU**  Chartered Life Underwriter which requires completion of the CFP program plus an additional 7 courses in financial planning including life and health insurance as well as employee benefits
- **CIM**  Canadian Investment Manager requiring over 500 hours of study in portfolio and wealth management
- **FCSI**  Fellow of the Canadian Securities Institute which builds on the CIM with 5 years of industry experience plus two additional wealth management courses
- **CFA**  Chartered Financial Analyst requires 750 hours of study on investment valuation, asset valuation, and portfolio management
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Find the right advisor for your needs

1. Compile a list of prospective advisors
2. Pre-screen your candidates
3. Conduct a personal interview
4. Make your decision
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Tips for a positive and productive relationship

- Come prepared
- Practice full disclosure
- Restate your expectations
- Be an equal partner
- Let your advisor do his or her job
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The Wealth Management Approach

- Introduction
- Discovery
- Strategy
- Solutions
- Service
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The Wealth Management Approach

• Guiding you through each life stage

• Encompasses lifestyle protection, retirement planning, intergenerational wealth transfer and legacy creation.
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Quotation

“It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money - that's all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot - it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better.”

- John Ruskin
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