In association with Oakwood Financial Advisors

Personal Finance

Warning signs — Buyer beware the fads

When selecting strategies for retirement planning or part of an investment portfolio, investors are often tempted to seek out the latest investment opportunities, often encouraged by advisors who stand to make lucrative commissions, cautions Ronan McGrath of Oakwood Financial Advisors

Last year was a volatile year, with negative returns in almost all global equity markets. Only three countries finished positive — Qatar, Peru, and Russia — but Qatar was the only one to really stand out at 30 per cent increase in equity values.

Glossy brochures can be misleading

In recent months, we have reviewed several portfolios where doctors had either their pensions, Approved Retirement Fund (ARF) or investment funds channelled into investments which were sold based on a glossy brochure, low risk and projected returns. Buried in the small print in several cases is the lucrative commission paid to the sales advisor!

Due to the "perceived" low risk of structured products they tend to be an easy sell to an unknowing investor. However, if you are looking towards retirement, they tend not to be a sound investment strategy.

Investment Review – 15 per cent loss

When conducting a recent review for a general practitioner, we found that he had been sold several of these as a "diversified investment approach" for his private pensions. Two of the three funds have matured with a 15 per cent loss on the original investment with the third fund due to mature this year with a 1.5 per cent return – after a five-year investment term. Overall not good, a loss of approximately 15 per cent on his funds over a period where the main equity markets were yielding a 6 per cent per annum average return.

Unscrupulous advisors

The majority of medical professionals are so busy in their day job it can be very difficult at times to understand what financial advice they are receiving. They are trusting in the advice they are receiving in many cases, which can leave them exposed to unscrupulous advisors.

We had two similar cases which we reviewed for an ARF client and a lump sum investor. Volatility in markets is nothing new and should be welcomed by investors as it often offers an opportunity to review and/or rebalance a portfolio. However, it can also offer an opportunity to push the latest "Investment fad" onto an innocent client.

Latest trends

Over the years, these approaches have sought to capitalise on market developments such as the perceived relative strength of geographic regions, technological changes in the economy or the popularity of different natural resources. But long-term investors should be aware that letting short-term trends influence their investment approach may be counterproductive.

As Nobel laureate Eugene Fama said: *"There's one robust new idea in finance that has investment implications maybe every 10 or 15 years, but there's a marketing idea every week."*

Ronan McGrath, Oakwood Financial Advisors

What's hot becomes what's not

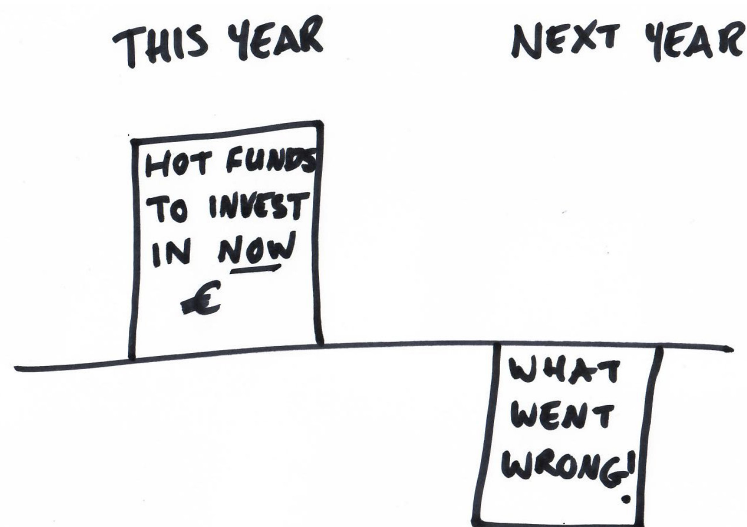
Looking back at some investment fads over recent decades can illustrate how often trendy investment themes come and go. In the early 1990s, attention turned to the rising 'Asian Tigers' of Hong Kong, Singapore, South Korea and Taiwan.

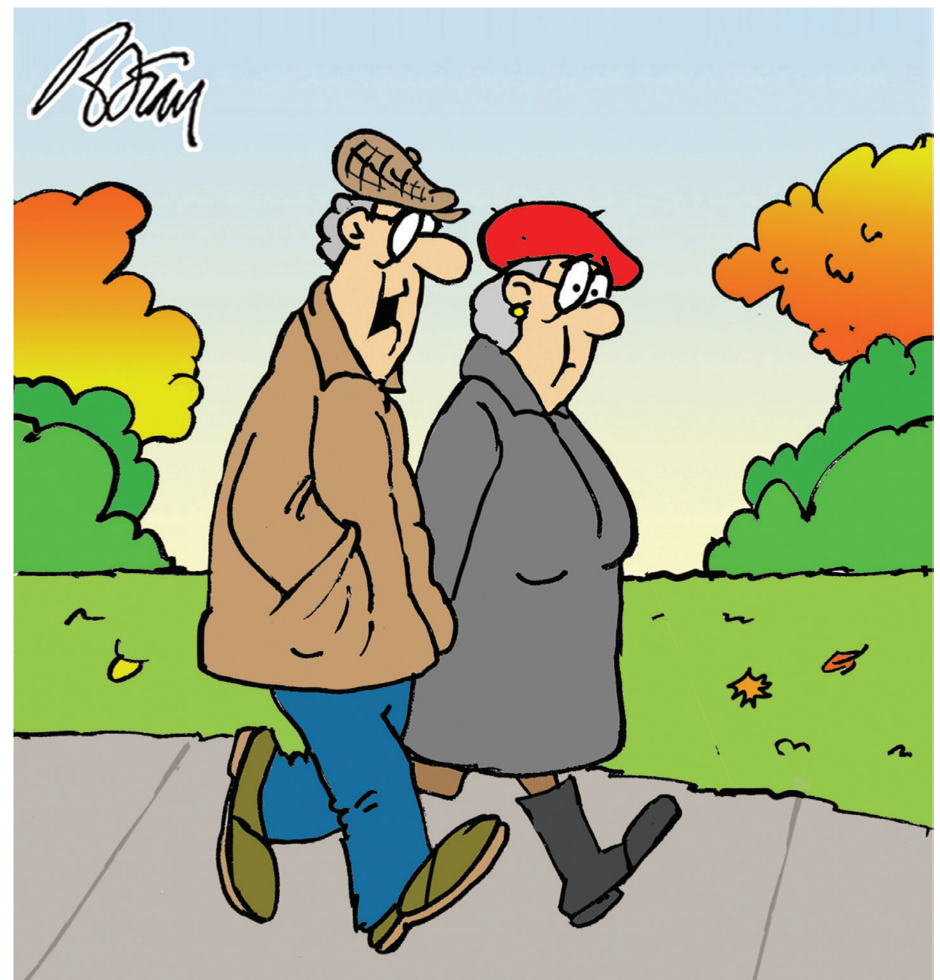
A decade later, much was written about the emergence of the 'BRIC' countries of Brazil, Russia, India and China and their new place in global markets. Similarly, funds targeting hot industries or trends have come into and fallen out of vogue.

More recently, we had the Dotcom bubble in the late 1990s and early 2000s. The growing belief in the emergence of a "new economy" led to the creation of funds poised to make the most of the rising importance of information technology and telecommunication services.

> If investors are left with doubts after asking any of these questions, it may be wise to exercise caution before proceeding

In the wake of the 2008 financial crisis 'Black Swan' funds, 'tail-risk-hedging' strategies and 'liquid alternatives' abounded. As investors looked for returns in a low interest rate environment in the following years, other funds sprang up. More recently, strategies focused on peer-to-peer lending, cryptocurrencies such as Bitcoin and cannabis cultivation have become fashionable.





"YOU KNOW THAT LITTLE NEST EGG WE HAD TUCKED AWAY? WELL, IT SEEMS TO HAVE HATCHED AND FLOWN THE COOP!"

CartoonStock.com

The fund graveyard

Unsurprisingly, however, numerous funds across the investment landscape were launched over the years only to subsequently close and fade from memory. While economic, demographic, technological and environmental trends shape the world we live in, public markets aggregate a vast amount of dispersed information and drive it into prices.

Speculation

Any individual trying to speculate and outguess the market by constantly trading in and out of what is fashionable is competing against the collective wisdom of millions of buyers and sellers around the world. This approach tends to lead to higher costs in a portfolio and offers opportunities for those unscrupulous advisors to profit on the back of the confusion.

The test of time

With the benefit of hindsight, it is easy to point out the fortune one could have amassed by making the right call on a specific industry, region or individual security over a specific period. While these anecdotes can be entertaining, there is a wealth of compelling evidence that highlights the futility of attempting to identify mispricing in advance and profit from it.

It is important to remember that many investing fads do not stand the test of time. A large proportion of funds fail to survive over the longer term. Of the 1,622 fixed income mutual funds available to investors in the world's biggest market, the United States, at the beginning of 2004, only 55 per cent still existed at the end of 2018. Similarly, among equity funds, only 51 per cent of the 2,786 funds available at the beginning of 2004 endured.

What am I really getting?

When confronted with choices about whether to add additional types of assets or strategies to a portfolio, it may be helpful to ask these questions:

1. What is this strategy claiming to provide that is not already in my portfolio?
2. If it is not in my portfolio can I reasonably expect that including it or focusing on it will increase expected returns, reduce expected volatility or help me achieve my investment goal?
3. Am I comfortable with the range of potential outcomes?

Solid returns

If investors are left with doubts after asking any of these questions, it may be wise to exercise caution before proceeding. Within equities, for example, a market portfolio offers the benefit of exposure to thousands of companies doing business around the world and a broad diversification across industries, sectors and countries. While there can be good reasons to deviate away from a market portfolio, over the longer term this is where solid returns come from.

Stay disciplined

There is no shortage of things investors can do to help contribute to a better investment experience.

Pursuing a globally diversified approach; managing expenses, investing under the correct tax structure, reducing turnover and staying disciplined through market volatility can help improve your chances of achieving your long-term financial goals.

Choose a tried and trusted advisor

Fashionable investment approaches will come and go but investors should remember that a long-term, disciplined investment approach based on robust research and implementation tends to be the most reliable path to success in investment markets.

Working closely with a trusted financial advisor can help you create a plan towards retirement or an investment portfolio that fits your individual needs and risk tolerance. IMT