

PERSONAL
FINANCE

*The
passive
investor's
mantra*

Index fund owners
chant 'I don't know
and I don't care'



JONATHAN CHEVREAU

I don't know and I don't care.

This empowering magical phrase is, sadly, not original with me. I've cribbed it from a piece one of America's best financial writers penned three years ago. In a column beloved by passive investors everywhere, Jason Zweig recapped his slow personal evolution from believer in stock-picking and hot active funds to passive indexer.

The "superstar" mutual fund managers he chose in the 1990s "had a disconcerting habit of fading from supernova to black hole," Zweig wrote.

"A few things were beginning to sink through my thick skull," Zweig confessed. "I wasn't very good at fund picking, and beating the market is amazingly hard."

You can Google the original but Zweig concludes with: "Will value stocks do better than growth stocks? I don't know, and I don't care — my index fund owns both. Will health care stocks be the best bet for the next 20 years? I don't know, and I don't care — my index fund owns them."

Let's assume you wish to adopt this catchphrase as your personal investment battle cry. By so doing, you'll become an unofficial member of "Active Investors Anonymous." [See the Index Funds Advisors site at www.ifa.com for the 12-step recovery program.]

Implementing this program will be no slam dunk. Odds are you currently use a commission-based financial advisor who believes in active management, or professes to.

See CHEVREAU on Page IN2

Some may value advice but not management

CHEVREAU

Continued from Page IN1

This is achieved either through mutual funds or individual stocks the two of you pick jointly in a collaboration of sheer genius. (Evidently, the two of you think you *do* know and you certainly do *care* when the picks don't work out.)

Certainly, many investors enjoy picking the odd stock, which is why tolerant advisors may suggest that those who are so inclined allocate 10% of their portfolios for such adventures.

That's the "explore" mandate, but it goes hand in hand with handling your serious money — your core portfolio — through passively-managed, low-cost index investments.

One way to build your passive core portfolio is to go to any major Canadian bank and use their no-load index funds. But these are not all as ultra-low-fee as the press over indexing may suggest, so choose carefully. Above certain minimums, CIBC index funds can be reasonable, as are the TDE Funds.

If you value advice and want to use your current stockbroker, you can "go passive" with exchange-traded funds, or ETFs.

If you work with someone licensed only to sell mutual funds, indexing may be more of a problem. These advisors are compensated primarily by selling actively managed mutual funds. The big-name fund companies like AGF, AIM Trimark, C.I., Investors Group and Mackenzie generally don't offer index funds, despite the vast literature showing their value.

The reason they don't can be inferred from a line American novelist Upton Sinclair created decades ago: "It is difficult to get a man to understand something when his salary depends upon his not understanding it."

It's possible to value advice but not active management. You can get it through fee-based advisors like PWL Capital Inc., T.E. Financial and KCM Wealth Management Inc.

These firms charge fees above and beyond the low MERs embedded in the investments they recommend. These sometimes include actively managed no-load funds or F class mutual funds; but are more likely passively managed index funds or ETFs.

You can also find this kind of advice at certain independent fee-only advisors. And you may even

find the odd gem in the unlikeliest of places. An example is Assante Corp.'s John De Goey, whose book, *The Professional Financial Advisor*, chronicles the evolution from commission-based to fee-based compensation.

Like Zweig, DeGoey was a long time coming to his indexing epiphany. Only recently has he finally committed himself to a 100% passive investment approach, although he still sells F class funds to clients who insist on them.

His preference, however, is to use the enhanced index funds of Dimensional Fund Advisors as the core of client portfolios, both for equities and fixed income. DFA came quietly to Canada last year. While it does not advertise, it is showing up as the core passive product recommended by a small number of elite advisors authorized to sell its funds. Examples are Milestone Investment Counsel Inc. and Meridian Global Investors, both of Toronto. See www.dfacanada.com for more on DFA's local presence.

DFA is also a key supplier for Montreal-based PWL, which has an instructive series of articles on its philosophy entitled *The Empowered Investor Guide*. Apart from diversification and asset allocation, its core principle is "asset class investing."

It also cites the two top myths, which are predictable if you've read this far — that active management can outperform indexes or that star managers can be identified in advance.

So ask me anything:
Should I buy the Google IPO?
What if interest rates soar?
Where's Nasdaq headed?
What if terrorists strike?

You'll get the same answer:
I don't know and I don't care.

Financial Post
jchevreau@nationalpost.com