

TEN YEARS AFTER

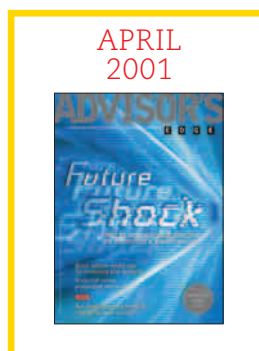


DARYL DIAMOND, CFP, CLU, Ch.F.C., is a Winnipeg-based retirement planning specialist and a professional speaker with the Knowledge Bureau. He has contributed to the magazine since 2003. advisorsedge@rmpublishing.com

WE'RE STILL NOT LEARNING FROM OUR MISTAKES—TOO FEW PEOPLE HAVE EFFECTIVE RETIREMENT PLANS.

TO truly appreciate the changing times and demographics of the last ten years, we need to look back at what the world was like when the first issue of *Advisor's Edge* appeared on our desks in 1998, assess where we are now, and consider what might lie ahead. Times are definitely a-changing, and it's been the aging of the baby boomers over the last ten years that has had the most significant impact on the financial services sector, and consequently on our practices.

In 1998, the leading edge of the baby boom (people born in 1946) was 52. Today, some of them are collecting their Canada Pension Retirement Benefit. A mere ten years ago, advisors were just starting to help their older, boomer clients position and prepare for the day their formal working years would stop so that income could commence from pensions, government benefits and retirement assets. That was the time markets were rolling along fuelled by tech stocks, and investors were revelling in the new economy. They lined up to get a piece of dot-com IPOs and watched in awe as their parents abandoned the safety of traditional vehicles like GICs in the face of declining interest rates, and began purchasing equity funds that delivered 20% and 30% returns. They believed the markets would



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never come down. It was the advent of a new age, a new time. Advisors saw their clients leverage their home equity to acquire non-registered investments. These were also the prime accumulation years for boomers. Their kids were probably gone, the mortgage was likely very low or paid off, and they could make a final push to bulk up the values of those RRSPs and other investments. And, at an expected 25% return per annum, how many years did they really need to be saving and investing to reach their accumulation targets? That irrational exuberance on the part of investors and advisors allowed the pursuit of returns to override risk considerations. There seemed to be no logic in reducing the returns on your portfolio with bonds yielding 5% when stocks could get you 30%.

It was all so much fun, until the tech meltdown started in March of 2000. For the **continued on page 18**



continued from page 17 next three years, investors experienced a significant and protracted downturn, something they hadn't seen previously. So what have investors and advisors learned over the last ten years from that meltdown, which was preceded by the Asian currency crisis and the Russians defaulting on debt obligations, and followed by 9-11 and Enron? Not much, it would seem, which is why we find ourselves in our latest pickle.

It's 2008 and we're facing our next crisis in the form of the subprime debt debacle. And as we can see from the day-to-day market volatility, investor emotion is overriding everything to which common sense should otherwise be applied.

Why is it—if clients have seen down markets before and have learned from experience that there's merit in staying invested—that there's still fear and grief over what's happening in their investment accounts? If they acknowledge markets move up and down, why do investors panic when markets do in fact go down? A lot of it has to do with another factor that's changed over the last ten years: excessive client access to information. Clients now have financial data pushed at them from every angle. Magazines dedicated to money management have proliferated; there are more specialty financial channels on TV; and stock-market quotes are on display in office elevators.

A lot of that, thankfully, was non-existent in 1998. I still have great conviction in the premise that an educated client is an asset, but problems arise when they have a sense of knowledge rather than a complete understanding of the issues at hand. One expert says, "Buy today," while another suggests moving everything to cash. And each can back it up with charts and graphs. Is it any wonder investors are confused and emotionally beaten by all these mixed messages?

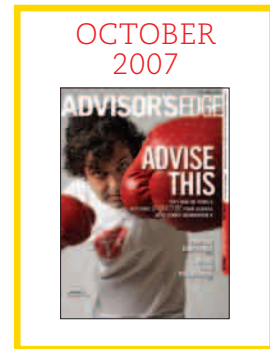
The second problem is the access to account balances. I'm not suggesting ignorance is bliss, but an investor checking the value of her long-term investments on a daily basis doesn't have much merit, unless she's a day trader. All that really does is add to an investor's sense of fear and impatience with declining markets. And none of that is constructive.

Where That Leaves Us

Baby boomers are only just starting to transition from accumulation to income. It's still in the early stages, which means opportunities for advisors are unparalleled. The reality for baby boomers has shifted from Freedom 55 to working well past retirement age, dealing with single adult children coming back home (often with children of their own), and balancing all that

with the demands of aging parents who are unable to look after themselves. Parents of boomers are living longer too, but aren't necessarily in good health. And that means there are more planning issues to be addressed than there were ten years ago. So we really have to start talking to our clients about the intergenerational wealth transfers from parents to boomers.

ADVISORS DON'T NEED THE NEXT NEW SALES IDEA OR HOT PRODUCT. THEY NEED TO DEVELOP SKILLS TO HELP CLIENTS TRANSITION ACCUMULATED ASSETS.



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We also need to reflect on Generations X and Y. Ten years ago, the X-ers (born between 1963 and 1981) were in their early thirties. But now, the leading edge of that cohort is celebrating birthdays with forty-plus candles on the cake—the age at which serious thoughts of retirement planning start to surface. Much like their boomer predecessors, Gen-X has high expectations for retirement lifestyle. As a group, they've started to save and invest at an earlier age than the boomers did. And they need to, because Gen-X is facing tougher times with accumulation and saving, given the wage differences compared to their predecessors.

We see many situations where more experienced employees are being packaged off and replaced by Gen-X counterparts, but the newcomers are brought in at a much lower pay scale. The other factor plaguing them and Generation Y (which is just now entering the workforce), is the near absence of formal pension plans, which were key retirement income tools for their predecessors. Pension plans that do still exist have mostly changed to defined contribution arrangements, rather than the more generous defined benefit plans some boomers will enjoy. Further, other than government employee pensions, there are literally no pension plans offering an indexing provision on income to help retirees deal with inflation.

An additional challenge for Gen-X, and even more so for Gen-Y, is the dramatic increase during the last decade in the cost of housing in nearly all parts of Canada. Even though the amount of down payment required to get into a home has been reduced, rising sale prices, and larger mortgages have ended up consuming bigger chunks of after-tax household incomes. This means less money to put toward retirement savings or investments. Over the past ten years, our opportunity

as advisors to do a superior job for our clients has been aided by significant changes in two key areas.

First, there's been an increase in the number of new or modified financial tools to help clients with both investments and insurance. This trend can be expected to continue, especially for the retiring boomer market.

The second area of rapid change is tax legislation, designed to allow more efficient outcomes as boomers transition their accumulated assets into income streams. Changes in dividend tax laws, pension splitting, pension laws, flexibility in the use of locked-in assets, and the introduction of the Tax Free Savings Account in 2009, are all opportunities for advisors to help clients intelligently disassemble and use what they've saved.

The pressures on advisors are greater than they were ten years ago, and they'll likely increase. The past decade has seen an ever-increasing regulatory burden placed on advisor practices. Increasing compliance obligations, while not inappropriate, consume both time and money. Meanwhile, compensation has gone from the common Deferred Sales Charge option, ten years ago, to low-load, no-load, F-class and other structures that reduce fees for the client and compensation for the advisor. Lower fee structures are indeed a good thing for the investor, but the advisor will find he must become more efficient in an environment of shrinking revenues and higher regulatory and client demands.

What's Coming?

Today, advisors may find themselves dealing with any number of different generations—sometimes out of necessity, because they're relatively new in the business and in need of developing a clientele. Or they could be dealing with different generations within a client family in an effort to deal with intergenerational wealth planning.

More established advisors generally prefer to focus on a specific age group or market, for obvious efficiency reasons. They are able to implement tested and proven concepts using processes that are specific to their preferred clients' profiles. There is also merit in the age connection. A senior advisor will more readily relate to clients either approaching or in the retirement-income phase, as opposed to newlyweds just starting out. It would also be more meaningful for the experienced advisor to provide value-added advice to someone selling a business than someone making a first RRSP contribution.

As we peer ten years into the future, we can expect advisors who specialize in a specific market, and refine their business models around that focus, to retain and grow their assets under management. Specialization in a client base also has the

benefit of making the book of business much more attractive when the advisor retires. And there are many advisors closer to retirement than there were in 1998.

Going forward, dealers, brokerage houses, investment companies and product manufacturers need to equip advisors with the knowledge and processes to effectively work with clients in the income market. Advisors don't need the next new sales idea or hot product. They need to develop skills to help clients transition accumulated assets into income in the most efficient manner. There are far too many retirees and pre-retirees who work with a financial planner but don't have a real financial plan.

Done properly, the income market is planning- and process-driven. As such, it's front-end loaded on effort, which is why in combination with lack of knowledge, most advisors shy away from it. As a result, the vast majority of retired or pre-retired clients are ineptly advised, under-serviced and over-charged. Advisors for the most part are still generalists. It's still common to see advisor business cards that go into detailed lists of what they sell rather than what they do.

If this sounds cynical or critical, too bad. The observations are based on what we see continually during meetings with potential clients as we examine the details of their situations, and the portfolios they bring in our doors. The wonderful news, however, for advisors who are prepared to take a comprehensive and integrated approach to this market, is that the opportunities are exciting.

To face the future, advisors need to equip themselves for growing client demands in an increasingly competitive marketplace. Clients are showing that they're ready to change advisors or leave institutions if they find what they're looking for elsewhere. And client awareness of the need for an advisor who is proficient in income planning is growing.

Change is the operative word when we look back at the last ten years. And that rate of change will further accelerate. Advisors must evolve in order to meet clients' emerging needs or risk losing that business. American social writer Eric Hoffer aptly said, "In times of change, learners inherit the earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists." So it is with our industry, and the advisors who work within it. ^{AE} **DIAMOND**

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January 2002, "The Next Generation," RRSP Survival Guide, page 5

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