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

Presented by
The Dool Team of
RBC Dominion Securities

RBC Wealth Management
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

Behavioural Pitfalls of Investing

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???

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Annualized Investor Returns vs. Benchmark

	Avg. Equity Investor	S&P 500	Difference	Avg. Fixed Income Investor	Barclays Aggregate Bond Index	Difference
20 Year	4.25%	8.21%	-3.96%	0.98%	6.34%	-5.36%
10 Year	6.05%	7.10%	-1.05%	1.17%	5.18%	4.01%
5 Year	-0.84%	1.66%	-2.50%	1.64%	5.95%	-4.31%
3 Year	7.63%	10.87%	-3.24%	2.85%	6.19%	-3.34%
12 month	15.56%	15.98%	-0.42%	4.68%	4.21%	+0.47%

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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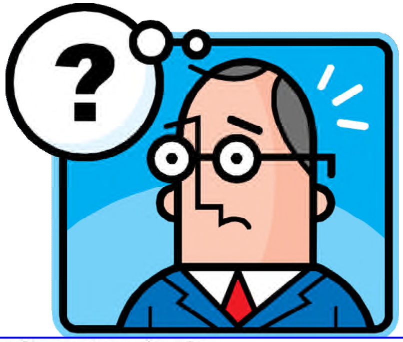
The Biggest DIY Investment challenges

- 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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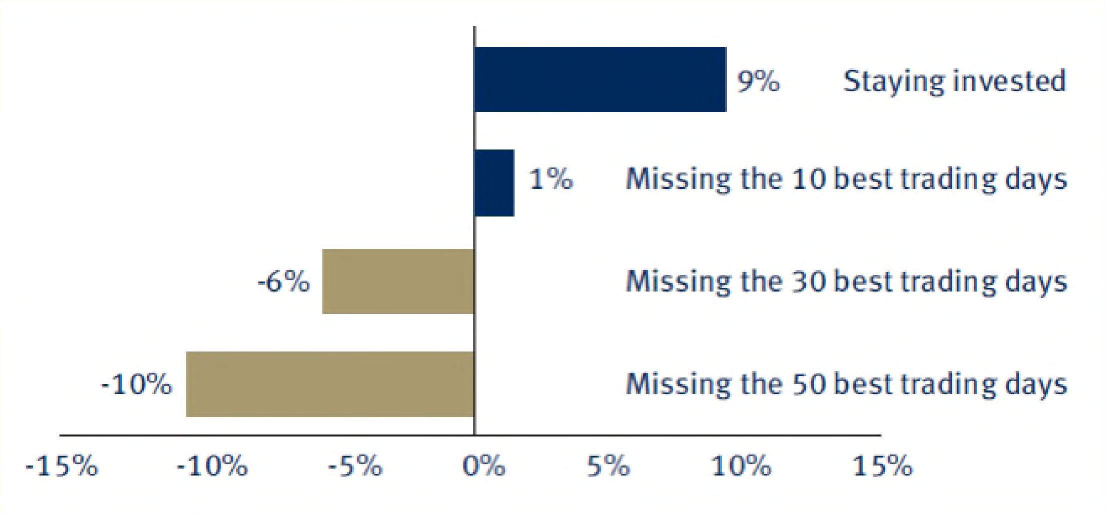
Why It's Best to Stay Invested

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



Source: Bloomberg, RBC Global Asset Management.
Based on annualized returns of the S&P/TSX Composite Index for 10 years ending December 31, 2012.

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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 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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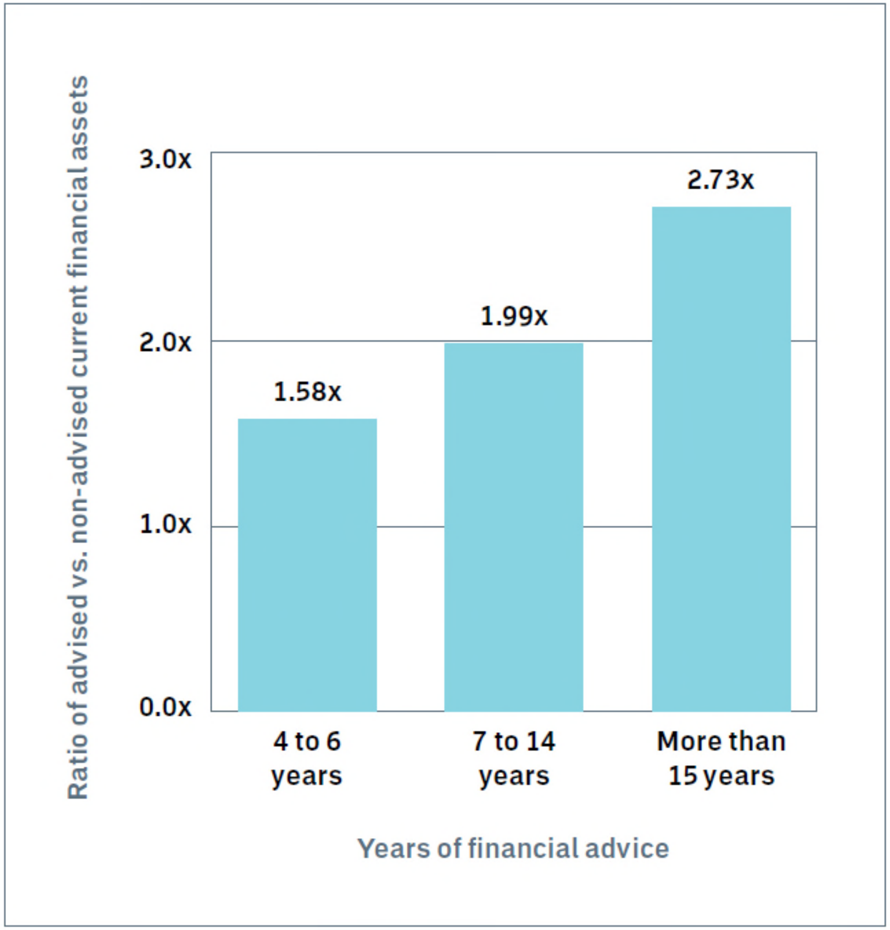
Why should you be working with a wealth manager



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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[20]

Asset Class	Advised (%)	Non-Advised (%)
Cash	23	44
Fixed Income	24	13
Equities	54	42
Total	100	100

[20] Numbers are derived from Ipsos Reid and IFIC. Ipsos Reid's investible asset weightings in chequing/savings accounts and GICs, bonds, stocks and mutual funds provided on page 11 and described in *Value of Financial Advice*, prepared for IFIC, October 4, 2011, are modified as follows: weightings for mutual funds are divided into equities and fixed income according to IFIC estimates of 64% in equities and 36% in fixed income, and weightings for chequing savings accounts and GICs are allocated to cash.

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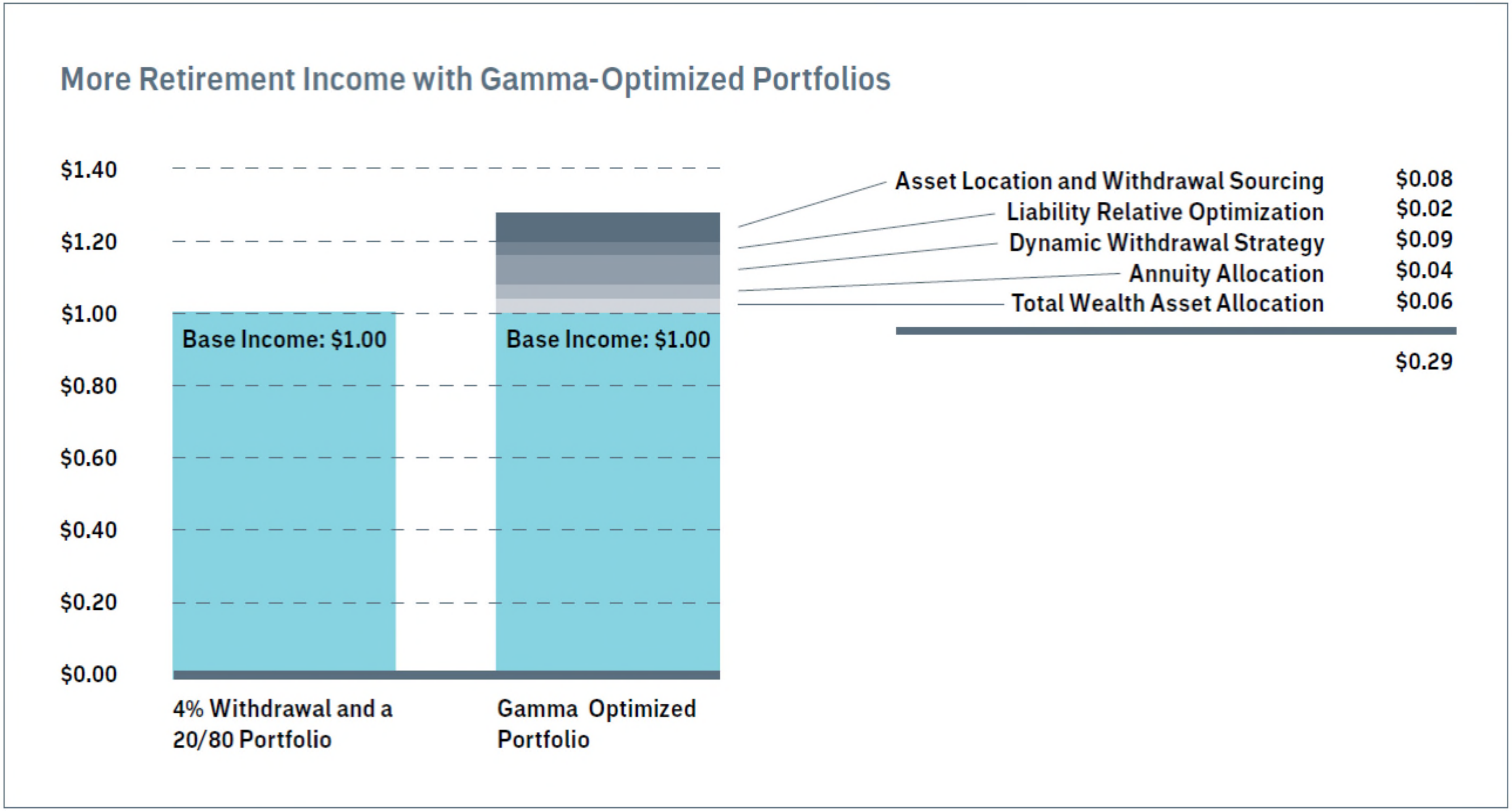
Why should you be working with a wealth manager



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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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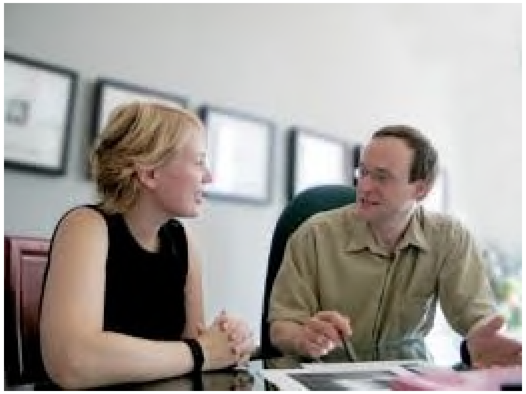
Tips for a positive and productive relationship

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



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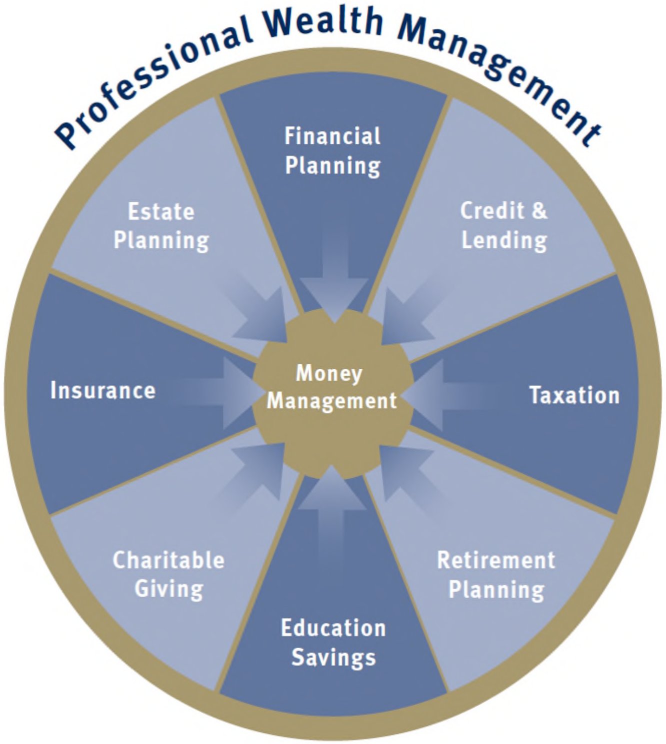
The Wealth Management Approach

- Introduction
- Discovery
- Strategy
- Solutions
- Service



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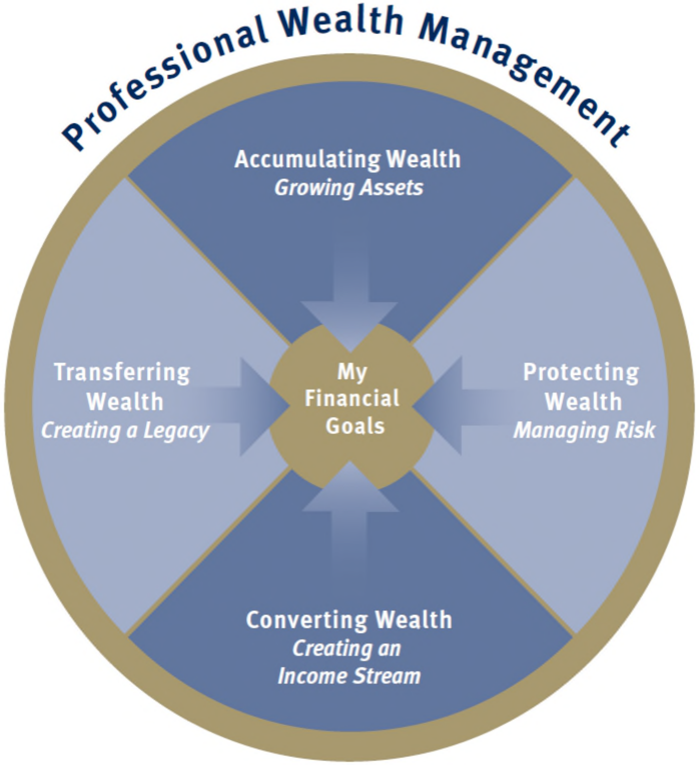
The Wealth Management Approach

- 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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