Informed investing takes more than click, click, done

theglobeandmail.com/globe-investor/informed-investing-takes-more-than-click-click-done/article31951521/

PAUL BRENT

As many veteran financial advisers agree, dealing with clients was more straightforward in the "old days." In the time before 24-hour financial channels, ever more sophisticated investment vehicles and social media megaphones such as Twitter, most clients received their information from newspapers, the odd newsletter or cocktail chatter.

While they appreciate educated, interested investors as clients, what should they do about those who follow extremist or "doomsday" investment pundits and believe that what they clicked on yesterday should form the basis of their portfolio strategy?

"I have been living it every day," said Daniel Thompson, vice-president and portfolio manager with Lorne Steinberg Wealth Management in Montreal. "I imagine any investment counsellor, any portfolio manager in Canada or the U.S. or wherever faces it on a daily basis."

Mr. Thompson is an avid Twitter user, following about 150 users of the social media platform. He doesn't use it to track sports or politics, or keep up with friends, however. He uses it exclusively to follow financial pundits as a social media tripwire of sorts to be prepared for the latest, greatest beat-the-market schemes attracting the eyeballs of investors.

"I'm on Twitter to watch these blogs and these so-called investment experts," he said. "I'm certainly not looking to them for idea generation; I want to see what they are doing and what this particular subset of the market is doing."

In his experience, those who scour social media for an edge to beat the market tend to be the younger and more cynical segment of his client base.

"Older clients tend to not spend so much time on social media, not spend so much time on Twitter, or watch CNBC all day long and listen to those crazies."

It's a phenomenon that is also faced regularly by Scott Plaskett, chief executive and senior financial planner with Ironshield Financial Planning in Etobicoke, Ont. He finds it is more prevalent among new clients "who go online and find media personalities that they like to follow."

"I keep on telling people that a lot of the information that you are getting is not education-based information, it is entertainment-based information. You can't make a decision on the online information you are given in a 600-word blog."

The tactic he takes when asked about the latest hot trend is to ask for time to do the research necessary to make an informed investment decision. That can constitute a cooling-off period and it also provides an opportunity to make a case for – but more likely against – the investment.

His advice for his colleagues and other financial advisers? Take an education-heavy approach to countering the latest social media-driven investment strategy. And be patient.

A sense of humour also helps, based on the experiences of Ted Rechtshaffen, president and wealth adviser with TriDelta Financial in Toronto.

"I had someone say to me, 'Marijuana is the next big thing. How come we are not invested in marijuana?'"

"First, I said, 45 of 50 of them will go bankrupt, and we don't know which ones. But keep in mind, many marijuana companies are started by people who love marijuana. They may not have the stick-to-it-ness to build a big business."

Mr. Rechtshaffen said he respects clients enthusing about particular stocks or sectors, but insists that it does not fit with his firm's investment approach for clients.

"I watch CNN and hear somebody talk passionately about some company that we don't own and I go, 'That is kind of interesting, maybe we should look at it.'"

However, chasing the stock du jour is no way to build clients' investment portfolios, he insisted. "It kind of keeps you sane, but you say, 'This is what we are trying to build and if we are trying to build this it actually allows us to [ignore] two-thirds of the stocks out there.'"

Mr. Rechtshaffen, as well as Mr. Thompson in Montreal, have a fallback strategy for clients who are determined to follow the latest, hottest investment strategy: create a "mad-money" sub-account.

"People say this all the time in the industry and it makes some sense. Tell a client to set up a direct brokerage account, take $25,000 or $50,000 and invest it as you see fit and use that as an ability to buy and sell some of the names that you are really interested in that may not fit the long-term money mandates."

Mr. Thompson, who sees nothing wrong with clients setting aside up to 10 per cent for a mad-money account, has a third, more final, step for clients unwilling to listen to his firm's advice: Show them the door and wish them well.

"At the end of the day, you have to understand that there are going to be clients who just don't fit what it is that you are trying to do as a professional."