Your guide to becoming
financially secure.
FOREVER

THE EMPOWERED INVESTOR

by Keith Matthews

TULETT, MATTHEWS
& ASSOCIATES

You want to be financially secure. Forever

We all want what's best for our families and ourselves. You've worked hard and saved money because you want to be financially secure forever. Yet there's still a problem standing in your way: how do you put all the pieces of investment and retirement planning together to ensure your future financial security?

Very few of us have the time or patience to build and manage our own financial plans and investment portfolios. Selections are often overly complex, and the unrelenting barrage of information from the media, financial institutions and advisors all claiming to know the secret to success makes a difficult process even more complicated.

Take a look at the table below. That's a crowded landscape of financial concepts that you need to be able to navigate.

Choice Overload

ADVISOR CHOICES

- Banks
- Insurance companies
- Mutual fund companies
- Stock brokers
- Investment counsellors
- Robo advisors
- Commissions
- Fee-based advice
- Conflicts of interest

INVESTMENT STRATEGY CHOICES

- Stocks
- Bonds
- Mutual funds
- Value strategies
- Dividend strategies
- Growth strategies
- Hedge funds
- Asset allocation
- Index strategies
- Factor based
- Investment philosophy
- Exchange traded funds
- Stock picking
- Market timing
- Options & derivatives
- GICs
- Friends & family "stock tips"

RETIREMENT AND ESTATE PLANNING CHOICES

- Tax efficiency
- Retirement plan
- Estate plan
- IPPs (Individual Pension Plans
- RRSP, TFSA, RRIFs, RESP
- Savings & spending
- Wills & POAs
- Currencies
- Taxes

We believe that you ought to have access to winning planning and investment strategies in a straightforward and easily-understandable way. The strategies and advice you need should be delivered to you in a transparent, conflict-free environment that always puts you and your interests first.

We care about more than just planning and investing. We care about you. At Tulett, Matthews & Associates, we have been listening to Canadians for twenty-five years in order to better understand their goals, concerns and worries.

In the world of *The Empowered Investor*, clarity wins the day. The challenges you face may be complex, but the solutions don't have to be. We will introduce a roadmap to help you navigate the labyrinth described by the choice overload above. The roadmap is composed of winning planning and investment principles that are clear and easy-to-understand. We dispense with hype and we don't rely on complexity for its own sake. We focus on more than just the elements of investment and retirement strategies, we also focus on you as a person with goals, dreams and fears. You are the hero of this guide, and we want your story to have a happy ending.

Regardless of our backgrounds, careers and life goals, we are all united in a common pursuit: the knowledge that we will be OK forever. This peace of mind only comes at the end of a long journey. You will undergo a transformation that will change the way you approach your investment and retirement planning. You will substitute all that confusion, anxiety and frustration for clarity, empowerment and enlightenment. You will benefit from knowing that you are doing everything possible to ensure your financial security today, tomorrow and for all the days to come. You will be OK. Forever.

Seize your future.

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Beware of Noise and 8 Common Investment Pitfalls

To ensure a prosperous and financially secure future, we need to understand the obstacles that stand in our way.

The hero of every story from Greek mythology to modern superheroes must overcome obstacles in order to accomplish his or her goals. The tension of wanting to know whether the hero will slay the dragon or save the world is what keeps us engaged as readers and viewers. We might not be Hercules or Superman, but we must still face the challenges and obstacles in each of our lives. When it comes to investment and retirement planning, you're up against a villain of your own.

Your villain is Noise — and it is everywhere. Noise is dangerous because it makes you change your behaviour. Noise wants to make you abandon your long-term philosophy in favour of short-term thinking and instant gratification.

Noise originates in these areas:

- The Investment Industry
- The Media
- Your Social and Professional Networks
- Your Own Mind

Noise leads to 8 common investment & planning pitfalls:

- Lack of an investment philosophy
- Not being aware of the mathematics of sustainable retirement
- Building portfolios based on headlines and predictions
- Trying to outsmart the market
- Chasing performance
- Lack of proper diversification
- Poor decision-making
- Letting behavioural biases get in the way

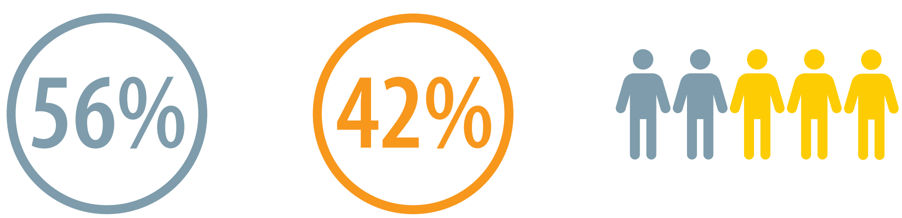
Step 1: Create Your Retirement Plan

You want to know that you're going to be financially secure forever. In order to do so, you need a plan to bring your financials together. Having worked as a guide with Canadians for over 25 years, I have learned that there are two key planning elements to ensure your long-term financial security:

1) Your retirement plan/ projection
2) Your investment plan

A retirement plan is crucial and everyone must have one. Innovative Research Group conducted extensive research for the Ontario Securities Commission on the state of affairs among Canadian pre-retirees over 50. They released their comprehensive report in the fall of 2016. Here are some of their findings:

PRE-RETIREMENT PLANNING STATUS:



Do not have a retirement plan

Are afraid of running out of money during retirement

2-in-5 have no idea of the amount required to fund their retirement

Source: Innovative Research Group

Guidelines to building a sustainable retirement:

For those who are serious about planning for the future, a comfortable retirement is still within reach. In order to fund a sustainable retirement, (let's say from 65 to 90 years of age) one must have either pensions, savings or both. The pensions and savings that you build over your working lifetime will determine your retirement cash flows and lifestyle capabilities.

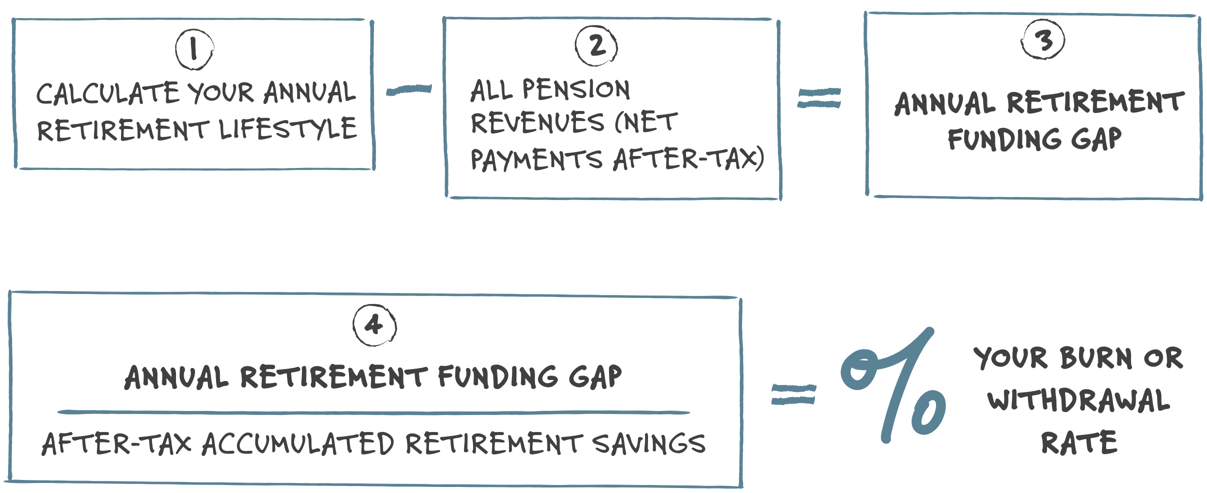
Savings guidelines:

For individuals without private or public sector defined benefit pensions, a general savings target should be between 15 and 20% of gross family income – regardless of family income level. If you start saving later in life, (at say 40 years of age) then the savings rate must be higher to account for the ten to fifteen years of lost compounding opportunities.

Burn rate and retirement spending guidelines:

Sustainable withdrawal rates help us understand how long our savings can last during retirement. Sustainable portfolio withdrawal rates are between 3.5% and 4.5% for 65-year olds wishing to have sufficient capital to last until their early 90s. This assumes a diversified, balanced portfolio throughout retirement.

THERE ARE FOUR BASIC STEPS TO SOLVING THE MATH OF YOUR RETIREMENT PUZZLE:



Bringing it all together

Empower yourself and start retirement planning now.

Empowered investors must strive to save enough throughout their lives to have sustainable portfolios by the time they retire. The above framework is a great place to start thinking about your retirement. However, retirement projections using planning software are recommended to increase accuracy and clarity around your retirement plan. We recommend doing so at 40, 50, and 60 years of age, just prior to retirement, and every three to four years during retirement. One of the reasons 56% of pre-retirees are stressed about retirement planning is because they are NOT doing retirement planning. Empower yourself and start now.

Step 2: Create Your Investment Plan

This step will focus on the actions you need to take with your investments. By familiarizing yourself with these concepts, you will empower yourself to become a more aware and disciplined investor.

An investment policy statement (IPS) is a written document (your investment plan) that you or your advisor create to keep you and your investments on track. The IPS brings clarity, vision and discipline to the investment process and allows you to overcome Noise.

The IPS brings clarity, vision and discipline to the investment process

While a financial plan encompasses the many different aspects of your financial affairs; the focus of an IPS is the ongoing management of your long-term portfolio. Developing the different components of an IPS requires careful thought and analysis. The components of your investment plan are noted below:

YOUR INVESTMENT PLAN

- Investment goals
- Return expectations
- Time horizon
- Explanation of risks
- Investment philosophy
- Asset classes
- Asset allocation
- Tax situation
- Investment costs
- Reporting investments
- Monitoring investments
- Evaluating investments

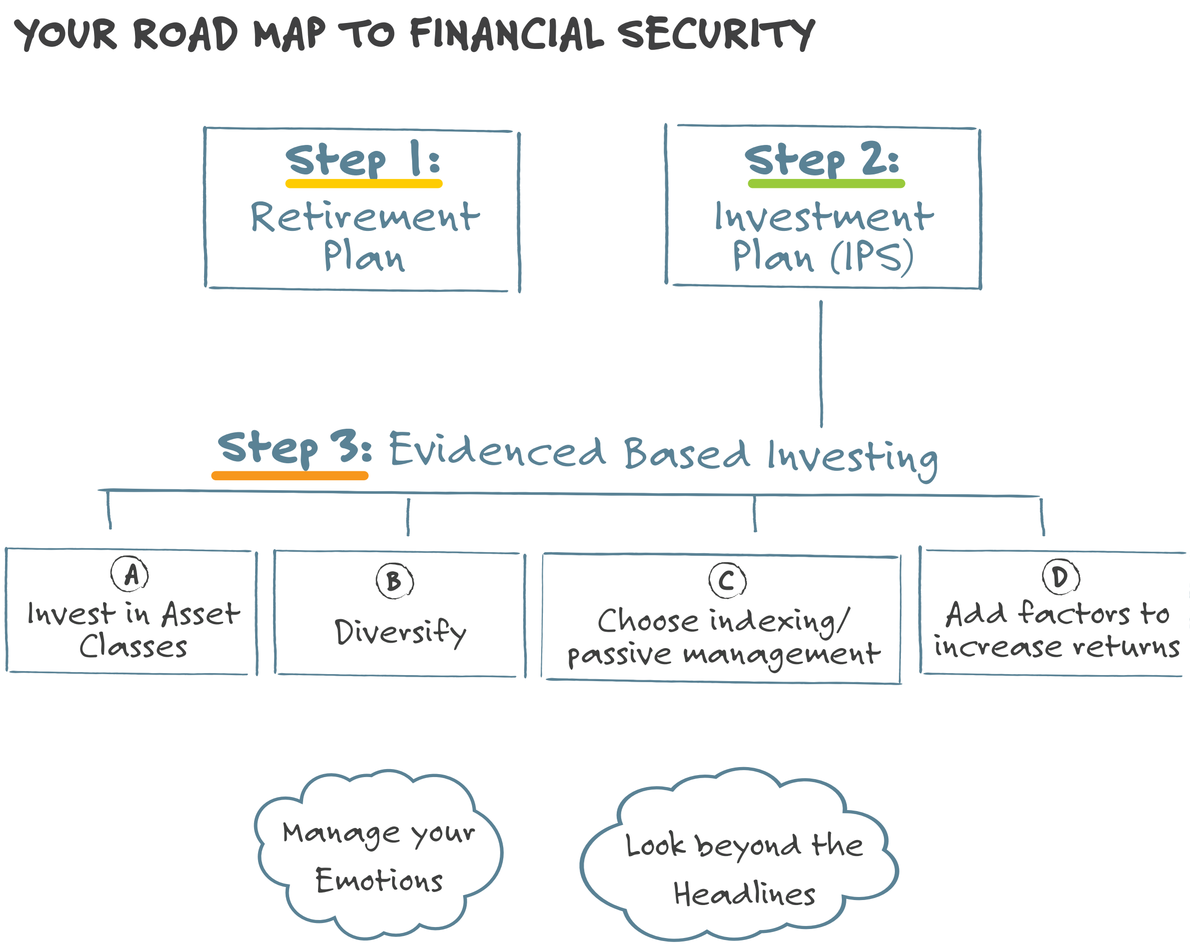
Embrace the IPS process – it's yours!

The process of creating and maintaining an IPS will ultimately empower you to set the winning conditions for a better long-term investment outcome. The ongoing IPS dialogue with a trusted advisor will provide you with a better long-term investment experience and make you more aware of how markets work, allowing you to set realistic objectives and reduce the number of future surprises.

Step 3: Embrace Evidence-Based Investing

Now that you've created an investment policy statement to define how you will approach the management of your portfolio, it's time to dig deeper into the winning principles of successful long-term investing. Understanding these principles is a crucial step to ensuring the safety of your financial future. In doing so, you will prioritize a sustainable, farsighted and healthy philosophy and leave behind the short-term focused, emotion-driven bad habits that can affect many of our most important investment decisions.

These principles make up what we refer to as evidence-based investing. The illustration below shows how these evidence-based principles (along with the financial plan and IPS) fit together on your roadmap to financial security.



There are three basic types of investing options available to you. These are market timing, stock picking and asset class investing. Market timing and stock picking are based on the belief that someone can either predict the future or gain by analyzing the errors of others. Wall Street and Bay Street firms spend billions of dollars trying to convince investors that it is possible to out-predict the competition.

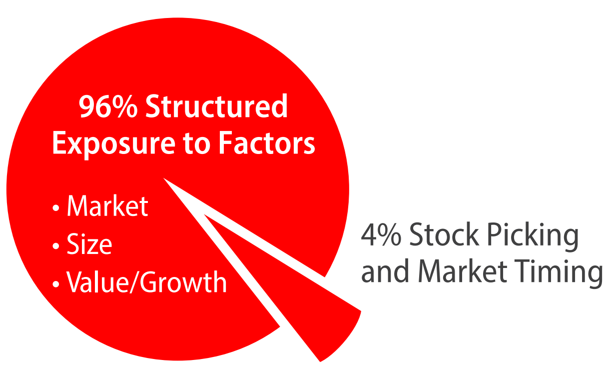
Both market timing and stock picking are driven by Noise

Both market timing and stock picking are driven by Noise. Evidence-based investing is different. Instead of being based on speculation or emotion, it is based on evidence that includes decades of data and academic research. Some of the top minds in academic finance over the last 70 years have worked to apply scientific and mathematical methods to decipher where investment returns come from. Their work has won many honours, including Nobel Prizes in Economic Sciences. It is time to put these strategies to work in your portfolio.

Step 3a: Invest in Asset Classes

Asset class investing is the most prudent and successful long-term investment management strategy available to Canadian investors. More so than any other deciding factors (such as market predictions, investment TV shows, manager strategies, newsletters, or the latest trendy ideas), asset allocation research shows that over 96% of the variation in returns is due to three risk factor exposures (see the chart below). These risk components are: equity markets vs. bonds, small company stocks vs. large company stocks and value company stocks vs. growth company stocks.

PORTFOLIO STRUCTURE AND ASSET ALLOCATION DETERMINE PERFORMANCE:



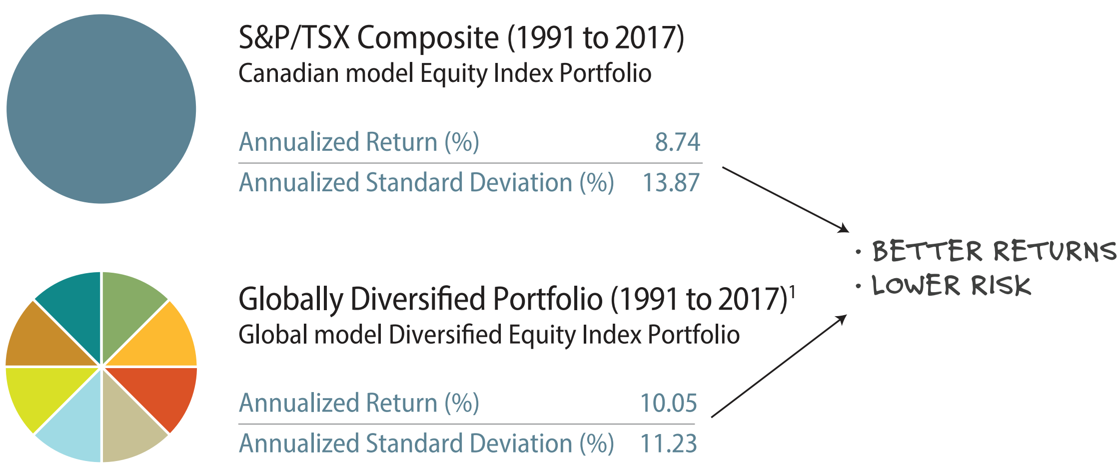
Source: Dimensional Fund Advisors

Asset allocation is one of the most important decisions investors and advisors must make, and that is why it should be the cornerstone of your investment philosophy.

Step 3b: Practice smart diversification

Most investors know that it is prudent to diversify, but do they truly practice diversification in their portfolios? Good asset class diversification occurs when many distinct and productive asset classes are added together to build an effective, long-term portfolio strategy.

Practicing smart diversification across market segments can help manage overall risk. But diversifying within your home market may not be enough. Global diversification can broaden your investment universe.



Step 3c: Use index or passive management

Over the long-term, few actively-managed strategies have been able to match index or asset class returns. The pie charts below show the low percentage of actively-managed strategies that have outperformed relevant benchmarks in the last ten years ending June 30th 2018.

MOST ACTIVELY MANAGED STRATEGIES DO NOT OUTPERFORM RELATIVE BENCHMARKS:

Only 11.11% of Canadian equity funds beat the S&P/TSX

Only 2.33% of U.S. equity funds beat the S&P 500 Index

Only 4.79% of International equity funds beat the S&P Large/Mid Cap Index

Source: Standard & Poor's Indices Versus Active Funds Scorecard, June 30, 2018

The good news is that Asset Class Strategies that track asset classes and indices are available to private client investors around the world.

Long term performance is one reason we prefer index class investments

There are many reasons why we prefer to use index (in the form of Exchange Traded Funds) or passively-managed asset class investments (in the form of Dimensional Fund Advisor funds) when building and managing long-term diversified portfolios. Long-term performance is one of them. Other benefits to your portfolio include: transparency, no manager drift risk, low fees, lower survivorship risks, and higher levels of tax efficiency.

Step 4: Consider the Drivers of Returns by Overweighting Factors

Academic research has identified these equity and fixed income dimensions, which point to differences in expected returns. Investors can pursue higher expected portfolio returns by structuring their portfolios around these returns.

DIMENSIONS OF EXPECTED RETURNS:

EQUITIES

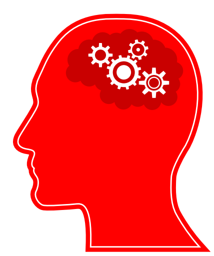
Company Size	Relative Price	Profitability
Small cap premium-small vs. large companies	Value premium-value vs. growth companies	Profitability premium-high vs. low profitability companies

FIXED INCOME

Term	Credit
Term premium-longer vs. shorter maturity bonds	Credit premium-lower vs. higher credit quality bonds

Manage Your Emotions

In addition to these four pillars of evidence-based investing, investors must concentrate on controlling their emotions to help protect themselves against Noise. Our brains are not wired to make us good at investing. Our emotions and biases can cloud our judgment and make us do things that are counter-productive or even self-damaging. It is important that we take the time to control them; otherwise they will take control of us.



Look Beyond the Headlines

Daily market news and financial media headlines can convince investors that they need to take action to protect themselves from harm or to take advantage of a great opportunity. Your long-term philosophy is not built on a foundation of short-term decisions. Stay disciplined, follow your plan and focus on playing the long game. Doing so will result in a more positive investment experience.

The Blue Ocean: Transform into the Investor You Always Wanted to Be

By reading this far, you've discovered how your financial plan and investment policy statement form part of the roadmap that will help you reach your retirement goals. You've also learned about the evidence-based investing that will help you increase your odds of being financially secure. You are ready to take control and become an empowered investor.

The Murky Ocean

People who don't have an investment philosophy or a financial and retirement plan that brings everything together are trapped in what we call the murky ocean. In the murky ocean, a lack of clarity and transparency makes it difficult to understand how your money is being managed or why your advisor is recommending one investment over another. The murky ocean is the worst place an investor can be. But with better education and awareness, investors can steer themselves into the blue ocean.

The Blue Ocean

In the blue ocean, your financial well-being is the top priority

Here in the blue ocean, your financial well-being is the top priority. This is where people who have decided to play the long game thrive. It's a transparent environment that helps you avoid the shoals of conflicts of interest and the waves of market hype. While it does not necessarily insulate you from market storms and the uncertainty of short-term price movements, understanding what you can and cannot control will help you weather those storms with much less stress and a better chance of success.

This is where you are transformed into the investor you always wanted to be. The table below shows the differences between investors in the blue and murky oceans. Check off the descriptions that you feel apply to you.

SUMMARY OF MURKY AND BLUE OCEAN

MURKY OCEAN	BLUE OCEAN
Retirement Plan:	
☐ You have not done retirement projections	☐ You have done retirement projections
☐ You are unaware of how much is needed to save for retirement	☐ You have a savings plan to provide for a comfortable retirement
☐ You are unaware of how much can be spent in retirement to support a sustainable retirement plan	☐ You are aware of how much you can spend in a sustainable retirement
Investment Plan:	
☐ You are lacking an investment plan	☐ You have an investment plan
☐ You have no investment philosophy	☐ Your investment philosophy is built around evidence-based investing
Investment Stucture	
☐ Your collection of funds is disorganized	☐ Your investments are highly structured
☐ Your stock picks are concentrated	☐ Your structure is transparent and easy-to-understand
☐ You trade heavily	☐ You use diversified, passively managed, index- or factor-based low-fee strategies
☐ You attempt to time the market	☐ You avoid stock picking and market timing
☐ You manage your portfolio with market predictions	☐ You steer clear of the 8 common investment pitfalls
☐ You buy IPOs	☐ You coordinate your investments with your life plan
☐ You are unaware of behavioural biases	☐ You pay lower fees and trading costs
☐ You chase manager or fund performance	☐ Your tax consequences are minimized
☐ You pay high fees and trading costs	
☐ You suffer negative tax consequences	
Your State of Mind	
☐ You are confused, lacking confidence, stressed, anxious	☐ You are empowered, confident, secure; you have peace of mind
☐ You are vulnerable to Noise	☐ You are disciplined and prepared for whatever lies ahead
☐ You are vulnerable to manager drift and surprises	☐ You are immune to manager drift

Which characteristics felt more familiar to you? If you feel that you are already in the blue ocean, keep doing what you're doing. However, if you feel as though you're stuck in the murky ocean and need help making sure you will be financially secure forever, now is the time to step up and make a change.

> This map has shown you how to tune out Noise and overcome the obstacles it can put in your way

The methods in this guide won't help you predict the future, but they will prepare you for it. By reading this guide, you have equipped yourself with a roadmap to help you on your journey. This map has shown you how to tune out Noise and overcome the obstacles it can put in your way. It is our hope that this guide will serve as a call to action to make you rethink your future and start pulling everything together in order to increase the odds of long-term financial security.

If the approach detailed herein appeals to you, or if you simply want more information, please feel free to give me a call or visit the Tulett, Matthews & Associates website.

Sincerely,

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"We made the decision to invest with Keith after reading the second edition of *The Empowered Investor* in 2008 and we have never looked back. Keith and his team have helped us to surpass our financial goals through an intelligent, unbiased and transparent approach that has always put our best interests first."

~ DR. EARL & MAVIS MORGAN
Amherstburg, Ontario

"We have been clients of Keith Matthews since 1999 and of Tulett Matthews & Assoc. since 2005. From the very beginning, Keith and TMA have consistently followed a transparent, client-centered philosophy and an approach based on index investing. Keith and his caring team treat us like family, and we trust them because we know that they will always have our best interests at heart."

~ KEITH WILCOX & JUDY MACARTHUR
Georgeville, Quebéc

"Keith's passion for finding consistently appropriate and efficient investment solutions has always impressed me – from my relationship with him when I was CEO of Barclays Global Investors Canada and iShares proponent to my time with him now as an appreciative client. Read this to benefit from Keith's clear thinking on successful financial and investment plans."

~ GERRY ROCCHI
Former CEO of Barclays Global Investors Canada

1 In Canadian dollars. Globally Diversified Portfolio is equally weighted with the following asset groups: Canadian (Large, Small, and Value); US (Large, Small, and Value); US Real Estate; International (Large and Mid, Small, and Value). Annualized Standard Deviation is calculated by multiplying the standard deviation of monthly returns by the square root of 12. Date range selected for the model portfolios is the longest common time series of whole years of data available. Rebalanced quarterly. Index descriptions: Canadian Large Cap is the S&P/TSX Composite Index. Canadian Small Cap is the MSCI Canada Small Cap Index (MSCI/Barra, gross dividends), January 1999–present, and Barra Canada Small Cap Index, December 1998 and before. Canadian Value is the MSCI Canada Value Index (gross dividends), January 1975–present. US Large Cap is the S&P 500 Index. US Small Cap is the CRSP 6–10 Index. US Value is the Russell 3000 Value Index. US Real Estate is the Dow Jones US Select REIT Index. International Large and Mid-Cap is the MSCI EAFE Index (net dividends). International Small is Dimensional International Small Cap Index. International Value is the MSCI EAFE Value Index (net dividends). S&P/TSX data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data © MSCI 2018, all rights reserved. Canadian Barra data provided by MSCI Barra. S&P data © 2018 S&P Dow Jones Indices LLC,a division of S&P Global. All rights reserved. CRSP data provided by the Center for Research in Security Prices, University of Chicago. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Dow Jones US Select data provided by Dow Jones Indices. Not to be construed as investment advice. Returns of model portfolios are based on backtested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Past performance is not a guarantee of future results. Diversification does not eliminate the risk of market loss. There is no guarantee investment strategies will be successful.