Ep114:
Global Investors, Shared Values: A Conversation with David Andrew

Keith:
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Welcome to today's episode of the Empowered Investor. Today we welcome David Andrew, founder of Capital Partners out of Perth, Australia, for a discussion on global trends in independent wealth management advice.

We first met David in the fall of 2022 when he and another group of advisors—who belong to a group called the Global Association of Independent Advisors—asked our firm to make a presentation to them and their group. We were honored and thrilled. It was really a very special time for our team to host, I think, 12 advisory firms from New Zealand, Australia, all over Europe, the United States, and Canada. It was thrilling. It was great to meet David then, and we're so happy to have him back in today's interview and discussion.

Essentially, what we'd like to talk about is how global investors share common themes and common goals. If you're a Canadian investor, just look all over the world—in Europe, Asia, and the United States—and you'll see that most investors have very similar goals and interests. Within the industry, there's also a growing group of independent advisory firms really pushing forward with fiduciary responsibilities and best practice ideas.

In today's show, David's going to share some of the things going on in Australia and trends he's seeing around the world, helping us gain knowledge and understand that we're not alone here in Canada. Many investors globally share our same concerns and aspirations.

Thank you so much for tuning in to today's show. Please enjoy. Welcome, David, to today's episode of the Empowered Investor.

David:
It's such a pleasure to be here, Keith. I've really been looking forward to it.

Keith:
Likewise. I'm looking forward to today's conversation about global trends in the investment and wealth management business. I have such fond memories, David, of when you and your colleagues from GAIA visited our office a couple of years ago.

David:
YYeah, well, Gaia, the Global Association of Independent Advisors, it was quite a treat, actually, Keith, to come to your office and meet Marcelo and others in the office and just talk about the incredible progress that you've made as a firm and Some of the incredible work you've done around the Empowered Investor, the book and the podcast, but also to compare notes and just see extraordinarily how similar the problems are, not just for our businesses, the challenges that we face as small medium enterprises, but also the challenges that our clients face. You know, it's quite remarkable, the similarities, even though we are literally on the other side of the planet.

Keith:
Well, this is one of the reasons we thought of doing today's episode, which is for our listeners. We're very energetic in discussing advice and how we think advice and solutions can be provided. And to see such a similarity all the way across the world with regards to how services are delivered and the same problems that challenges have is remarkable. So, we're going to have a great chat and really discuss from an Australian perspective what you're seeing and the similarities that are here in Canada.

David:
Sounds great.

Keith:
David, why don't you let us know a little bit about Capital Partners and your role there?

David:
Sure. I'm the founder, and we started our firm 26 years ago. It literally started because I'd been in a big job with a financial institution and I was done with it. I really wanted to be on the client side. I wanted to help families make progress with their money.

When you work for a financial institution, you get to see the very best and the very worst of the industry. And my goodness, did I see some terrible things that were not in clients' best interests. I was passionate about doing something different.

When we started in 1999, there were so few independent firms in Australia. Everyone operated on commission. We were probably the second fee-only firm in our state, which has about three million people. I was nervous, of course—doing something completely different and charging fees instead of commissions was a risk.

But I told clients: "I'd like to give you advice, but I'll need to charge a fee to do this. The difference is, the advice will be in your best interest." Much to my delight—and perhaps some surprise—clients really got it. It started with people who knew me well—neighbours, doctors, lawyers—who said, "You're doing something different. Can we talk about that?"

Fast forward 26 years. The firm has 50 people. We're the largest independent firm in the province and one of the largest in the country, with $2 billion of assets under management. It's been an incredible journey. We're not trying to grow to be big—we're growing so we can serve as many Australian families as possible with high-quality financial advice. Success for us isn't about assets under management; it's about faithfully serving 800, 1,000, or 10,000 families. That's where the ambition lies.

Keith:
Well, it's a wonderful story. And you started your firm at the same time many independent firms were starting in Canada. Independent portfolio management firms have been around for decades—going back to the 1950s and '60s—but the idea of providing advice beyond just portfolios is really a 20- to 30-year journey.

Could you expand a little on how the industry looks in Australia with regards to independent versus large bank-owned or insurance-owned firms? What does that landscape look like right now?

David:
Quite different from Canada. A few years ago, we had a Royal Commission—which I know is a term your listeners will appreciate since Canada also follows English common law. It was a national inquiry set up to investigate the practices of large institutions, and the findings were terrible—just appalling.

People were being charged fees on portfolios of deceased individuals, or where no advice had ever been given. These were passive relationships where investors were paying fees and receiving nothing—not even a birthday card, let alone financial planning.

Many of the big banks left the wealth management space because they were forced by regulators to compensate those investors. What had been a gravy train for the banks became a massive liability. As a result, we went from having about 30,000 financial advisors in Australia to about 12,000. We're now back up to about 15,000.

Today, commissions on investments are illegal—and rightly so. It's very difficult for an advisor receiving commissions to truly act in the client's best interest. They're seduced by compensation: "Which of these three decent products will pay me the most?" It's an untenable conflict.

We're probably preaching to the converted with your audience, Keith, but I find it extraordinary that commissions still exist in Canada. Independent advisors can sit on the same side of the table as clients, understand their goals and values, and then deliver advice and portfolios that align with them. That's what's in the client's best interest—100%.

Keith:
100%. And the good news in Canada is that we had research going back to the Gloria Stromberg days—mid-1990s—that identified these issues. Today, there are fewer and fewer commissions, although they still exist. There's more transparency, but not as much as there should be.

Some large financial institutions are under fire for pressuring their advisors to cross-sell strategies and products. Even without direct commissions, that kind of pressure can still create conflicts, and it's been making headlines here.

David:
Let me position this slightly differently. In Australia, we have four major banks that serve as the pillars of our banking system, along with some smaller regional banks. These big banks have powerful brands—on par with Qantas or Air Canada. They're household names.

That trust was undermined by the misselling of financial products. When a bank owns the financial product and holds public trust, they can charge what they want and layer in fees without the customer realizing. Separating the institution that manufactures the product from the person giving advice is essential. It protects the client—because now they can be confident that the advisor has no financial connection to the product manufacturer.

Keith:
Absolutely, David. We often tell clients, "We are employee-owned, and we don't manufacture any products." The issue arises when the same entity manufactures and sells a product. That's where you can end up with something average being promoted as the best fit.

David:
The investment product is really important. And if you think about this as an iceberg and you can see the glistening tip of the iceberg above the waterline, our entire financial media teaches investors only to think about what the tip of the iceberg is. Where should I be investing? Should I be investing in a retirement fund? How much should I be investing? You know, should I have this fund or that fund? Should I have this tax wrapper or that tax wrapper?

But if we go below the waterline, we all know, we all know there's a bigger story between the hype below the waterline, don't we like the mass of, the mass of the iceberg is below the waterline. Now, I believe we work with affluent clients like you do. They're people who will not be 100% reliant on government benefits in retirement. They take pride in making sure they are as well as they can be self funded in retirement. So, they're business owners, they're professional people. And what our research suggests to us is that when you go below the waterline, there's three critical things that those affluent families need.

The first is they're asking a question. Am I making smart decisions with my money or am I making mistakes that I don't even know about? The second is, are the people I love and care about going to be okay no matter what? Are we setting ourselves up in such a way that the people I love and care about are going to be, okay? Can I afford to fund help for my parents if they need it? Can I afford to help my children with a deposit into the, the housing market?

So that's the second question, the third question is, am I setting myself up to have the best life possible? Now, none of that has got to do with product, and yet all of the advertising is about product. I have never seen an advertisement for a financial institution other than, you know, a marketing tagline. I've never seen a serious commitment by a financial institution to say, Mr. Matthews, let's sit down and talk about what's really important to you. Let's talk about your goals, your values, your priorities, and let's create a plan around that. I just think that's such a powerful, powerful force for good.

Keith:
I think you're absolutely right. I remember when I personally got into this business, I was a bond trader. So that's all about numbers and investments. And I used to take a few people to investment firms because they asked me, Keith, you know, what's going on a little bit? Can you help me select a portfolio manager? And I'd go, and the portfolio manager would just talk about numbers and whether they beat

the market or not. And if they didn't beat the market, there would always be a reason, reason why. And lo and behold, what you really realize is that the person needs help in retirement planning, in cash flow budgeting, in taxes, and in goal setting, you know, and figuring out what's important and how to reach those goals financially.

David:
Yeah. And you know what? One of the things I see in retirement planning that really, really bugs me. Many retirees actually live too frugally. And you think, what's the money for? You've worked all your life. You know, if you think about it in the context of delayed gratification. Delayed gratification for what? Surely, you're delaying. You're putting off spending to save in order to later really enjoy yourself.

I think that's one of the great benefits of advising through this lens and doing proper financial modeling, doing the real work is to be able to say to someone, which I'm sure you've done, and I definitely have, is, "hey, John, if I told you that you could retire three years earlier than you think you can, what would you say to that?" And there's a long pause, and they just say, you're kidding me, aren't you? Like you. I don't know what the equivalent word for you. Do you use that language? You're kidding me.

Keith:
Yes—we use the same phrase: "You're kidding me." You're bang on.

David:
And sometimes they'll say, "You're messing with me. I can't retire now". Yeah, well, actually you can. And I've often had people say, well, you know what? I'm not Going to; I'm going to keep working through till 65 because I actually am enjoying it. But if I do work through till 65, what else could we do?

Keith:
Well, we often, we're often encouraging our clients to spend more, especially during their go-go years. You know, there's the go go, the slow go and the no go, the go-go years. You have to, you have to get out and be active. One of our most downloaded podcasts, David, was when Marcelo and I did a book review of, of a book called Die with Zero.

David:
Yes, I've read it.

Keith:
It was very well received by our listeners. The concept is a bit unusual, but it's a great idea, which is make sure you, you enjoy life. If you have assets that you would wish to gift to individuals who can really use it at that particular time, consider it. But I think that's what you're speaking to. This whole idea of making sure that you are not too frugal through your retirement lifestyle, spending decisions and really enjoy life.

David:
Absolutely.

Keith:
Can you speak to trust and transparency? I know we've just touched base on independence and why that's important, but how does your firm example try to foster trust and transparency with your clients?

David:
You disclose fees, you disclose everything. I think one of the biggest things that happens in financial services is when mistakes get made. And I think a lot of mistakes that have cost clients money get covered up.

And so, one of our values at our firm is that we do the right thing no matter what and, in brackets, it's even—especially when—nobody's looking. You know, you just do the right thing by people every single time. And I think if you do that for long enough, clients get that and word spreads, and the community understands that the brand Capital Partners is a trustworthy brand.

Trust is a really interesting one. I have a philosophy on trust, and that is that I can't create trust as an advisor. All I can do is create an environment for the client to step into. So, the way I show up—I need to be trustworthy. I need to be straight up and down. What you see is what you get.

Our initial client process is very, very good at doing this. So, the first thing that happens: a client rings, they've been referred by their cousin or their mum and dad, and they have a conversation with us. And it's very much about, "What are you trying to achieve?" At the end of that conversation, we'll say, "Look, we think we can help you. What we're going to do first off is send you a copy of a book that I wrote."

So, one of my team members will say, "I'm going to send you a copy of a book called *Wealth with Purpose* that our founder wrote. All I want you to do is have a flick through the first couple of chapters, because if you like the melody, then it's a pretty good indication that you've found the right tribe." And so, we send the book out. It's a beautiful, well-produced book, and people get it, and it just tells the story about what we believe financial advice should be.

The client's got the opportunity to opt out at that point. You know, if they say, "Well…"—and I've never had this, by the way—I've never had anyone ring up and say, "Look, I really don't want to have a conversation about my values and my goals. All I want to talk about is investments." I've never had that. And we've sent out thousands of these books, and the vast majority of those people have come in for a discovery meeting.

And we literally have that conversation—values, goals, priorities. What are you doing now? How are you banking? How are you doing this? How are you doing that? So, we just get a total picture of their situation before we try to sell them anything.

Now that is unusual. And I think clients often, or prospective clients often, think, "Wow, that's a bit different." I have had people come in and they jokingly say, "I didn't know I was coming to a psychology meeting," or, "I didn't know I was coming to marriage guidance." And they're joking—they're tongue in cheek—but at the end of the day, the conversation is so about them that I think trust is the natural outworking of that.

Keith:
Okay, that's great. What I think I'm also hearing is its care. It's trying to understand who the people are, where their goals are and what they're trying to achieve and paying attention.

David:
We want to have long-term relationships with our clients. So, I would much rather have a meeting with a client where we spend an hour and a half to two hours and at the end of the meeting they say, "You

know what, I don't think this is for me." I'd rather that happen right up front than in a year and a half's time. Because, you know, divorce is messy.

If we really do the work well and we set it up, I say, "Okay, there's no pressure here. The next step—if you want to go to the next step—is that we prepare a financial plan. We need to charge you a fee to do that. This is what the fee will be."

I noticed something in Canada that's different from Australia. When you walk into a shop in Australia, the shop assistant always says, "Good morning, can I help you?" And Australian customers always say, "No, thank you. No, no, I'm just browsing." Then five minutes later, they come back and say, "Excuse me, you can help me. Can you show me in the direction of this?"

I didn't notice that in Canada. When I was in Canada visiting you, your shop assistants just said, "Good morning." And I found that really interesting. I don't know if I've got that right or not, but I found that quite fascinating.

Because what the Australian consumer is essentially saying is, "I don't want to be sold to. I'm not ready yet."

A financial services relationship is one of the biggest relationships people are going to have. Obviously, they have their family relationships, but outside family relationships, you have your relationship with your doctor, which for many people is important.

You might have a relationship—if you're a business owner—with your accountant. I think that's a deep and essential relationship.

Keith: Absolutely.

David:

Maybe a lawyer as well. People in business might have a relationship with an insurance agent and so on, but choosing a financial advisor is a really big deal. So, I think taking it step by step without any pressure and providing what we call buyer safety at every point of the process, the buyer feels safer with us than without us. That's critical, and that's how trust gets formed. As soon as I apply the pressure, you can always physically feel the recoil. It's whoa, whoa, whoa, whoa, way up a minute. And that's where trust gets broken.

Keith:
Yeah. So that's part of the discovery consultative process that you use when you're bringing potential clients on board, which is these conversations, understanding where they're trying to go, listening to them, and then if they're willing, and if you feel it's a good fit, going to the next level and proposing services.

David:
Yes. And each time we present the next step, they say, "Yep, that makes sense." And we move forward together.

Keith:
Let's talk a bit about the services that Capital Partners provides. Can you walk us through what a typical client experience might look like? Planning, investment, insurance?

David:
Thing is we really want to make sure that our clients feel very safe around making sure they can get the solutions they need, no matter what the problem is.

But a typical client that comes in the door will be an affluent Australian. They will either be a business owner, a professional or senior executive, someone who is ready to retire, who has come out of that environment.

And we do an enormous amount of work for a segment that we call Women in Life Transition. So, women who have received an inheritance or women who have received a divorce settlement, there's a very unique set of needs to help those women. It's part of our most valued work. It's the work that we love doing to help someone rebuild their life and get the advisors they need and get the strategy they need.

But we will do pretty much the full service. So, a financial plan with financial modelling. If they need life insurance, we will identify that need and we will introduce them to an appropriate insurance.

Keith:
Do you do insurance in-house or through external relationships?

David:
We did. We had a very large insurance business, but under Australian law you cannot be independent if you receive insurance commissions.

Keith:
Very interesting.

David:
It was so important to us that we could be independent that we chose to exit that business line. It wasn't a great financial decision, but it was the right decision for us because we wanted to be able to say we are independent in the eyes of the law.

Keith:
It's interesting. Well, that's exactly what we are able to analyze insurance on behalf of our clients, but we do not sell insurance.

David:
You know, it's a very complex specialist role. So, I would rather, I would rather give that to someone else and let them earn the money on it and do it really well than for us to do it in a half-baked way.

Keith:
Fair enough.

David:
So, then we have estate planning, and we do go into a lot of detail. Most trust. I don't know if trusts are a big thing in Canada, but in Australia trusts are quite big for asset protection, for tax planning. And so there's a lot of work that needs be to, to be done around making sure the trust deeds are reviewed by a solicitor or attorney and that the strategies that are being recommended to help long term tax planning are actually going to work because it's all very well to have the strategy, but if the trust fails, then you're back to square one. You haven't really helped anyone. So, there's a lot of really thorough work that gets done behind the scenes to make sure things work properly.

Keith:
Trusts are important for business owners in Canada, but, but they're not to the extent used in estate planning as you would find in Australia or the United States. So, in our world it's actually more straightforward. Typically, everybody must have a will and what we call powers of attorney or mandates. But that's sort of the, I guess the main difference really.

David:
The rest of it depends on the client's need. You know, we will introduce aged care services. You know, someone's got an ageing parent, and they just say, look, we've tried to navigate this, this government system for aged care, we need help. We say, yep, okay, we get it. Let's introduce you to someone who can help you with that.

We do a lot of work with NextGen, so as a standard part of our services, we will always talk to our clients' children. We want stewardship, we want there to be a healthy legacy. So, we're providing a really clear sense of direction for mum and dad. So, we're taking them on a journey of really understanding what their bigger future will be. Then we're saying, okay, we're going to put, you put in place a plan, we're going to give you really good decision support around that plan and then we're going to build in a series of investment portfolios based on how many tax structures you've got. So that gives them real pathway certainty. They know exactly where they're going, they know the pathway and they're certain on that pathway.

The last piece of the puzzle is legacy. Like we want the legacy to be healthy. So, are the right conversations being had with children?

I was reading beautiful Warren Buffett quote this afternoon. He said, I want to leave my kids enough money so that they'll always be comfortable, but not enough money so they can't, they're not in a position where they do nothing. I've bungled that quote pretty close. He wants to give his children enough money so they're comfortable, but not so that they can just sit on their backside and do nothing. And I got to say, a lot of our more affluent clients feel exactly the same way. They really don't, especially those who are self matched. They don't like entitlement.

Keith:
Absolutely—100%.

David:
So, getting the kids on board and saying, okay, money. I define entitlement as an expectation without responsibility. So, if there's an expectation of mum and dad have got money, therefore they should give me some, that's entitlement. But if it's mum and dad have got money, I understand that that's important business and they've invited me to have a conversation around that and learn about it. That looks like response, responsibility.

Keith:
Do you host family meetings? What does that look like?

David:
Well, it's generally, it's different depending on the level of wealth. But even for most clients who want it, we will have a family meeting where we will bring the adult children in and we will go through the legal

structures, the trusts, companies and any other structures, and we will go through the wills in terms of what the provisions in the wills have been.

We also have a conversation, and part of that is so they know who we are, because Mum and Dad say, if anything ever happens to us, come talk to, you know, David or Michael or John, whoever's in the room. And there's enormous comfort comes from the family knowing that they're looked after.

That goes back to that second critical outcome. You know, are the people I love and care about going to be okay no matter what.

You know, in Australia, as you read in Canada and the United States, there's lots of drug problems and drug and alcohol problems. And it's not unheard of that we have to set up protective trusts in wills so that, you know, children receive the benefit of the money, but they don't receive the money. There's lots of need for family meetings around that sort of thing.

Increasingly, as we're working with more affluent families, the family meeting is around education. It's Mum and Dad in the room with the kids. And we're trying to take the kids on a journey of learning about the family finances and money in general, you know, how to pay off their mortgage wisely and those sorts of things. And that's a lot of fun. That's incredibly rewarding. And I'm sure you find that too.

Keith:
Well, we're constantly trying to find ways to help NextGen and provide a consultative approach, whether it's helping them with their first investment accounts. And we are having more and more family meetings now where you're dealing with the family stewards, and they want to sit down and review wills together with their adult kids at this point.

And the other thing we're also seeing is an encouraging aging parents to at some point get their adult kids involved in helping them with their finances. And so that might be encouraging certain individuals to get powers of attorney so that their adult kids can actually help them with their finances. So that would be perhaps somebody in their late 70s. You know, it's a critical stage and we're seeing more and more of that, you know, cognitive decline in the 80s and the challenges that that brings to making sure that their family affairs are safe, secure and well intended.

And so, we really encourage individuals to start working with and having their 55-year-old kids be involved in their lives. So, it goes both ways, it's not just about the 55-year-old making sure that the 25-year-old is taking taken care of. It's also making sure that the aging parent is taken care of the other way.

David:
Yep. Well, if I flip that in terms of age, there's a reciprocal issue around, let's say mum and dad have just retired, they've got $2 million. I imagine if you had 2 million Canadian dollars you could have a pretty comfortable retirement.

Keith:
Pretty comfortable. But you know, its life is getting a lot more expensive nowadays. So, for some individuals that might not be enough and for others that's plenty.

David:
Okay, so that's important. So, this came up when a young fellow died. He wasn't a client of ours; he was a, he was known to one of our advisors. He died unexpectedly leaving a young wife with three children.

Now thankfully they had, he had and therefore she was the beneficiary of a lot of life insurance. So, whilst her life got turned upside down, they had the money to move forward. One of the things that I get from very concerned about and it's a question that we've been asking people more and more and requesting the opportunity to speak to their young adult children is if mum and dad have got 2 million or 3 million of retirement money and the next generation down, one of their children's or their son or daughter in law dies without adequate insurances, what happens next?

And a lot of family stewards are going to step in and say well we'll help you in any way we can. And so, so it's absolutely. Well, it's just as important to have conversations about estate planning up the line in terms of aging parents. It's also really important to have conversations around estate planning and insurance for the next generation down, our young adult children.

Keith:
Let's take a moment, David, and touch base on investments and the investment philosophy. I know that this is something that both our firms have in common, which is this, this idea of what portfolio management should look like. We both use either exchange traded funds or dimensional fund advisor strategies to build out portfolios. But can you take a moment and explain what the sort of general investment philosophy and approach would be and then we'll sort of funnel down into what a portfolio, a diversified portfolio might look like for one of your clients?

David:
Yeah, sure.

Can I start that by telling you a story soon after our business started, we were doing what most financial advisors did back then and they certainly still, many of them do it now. We were using active funds, which are quite expensive. And anyway, we got this research that said we should be moving all of our money out of the Fidelity Australian share fund into the UBS Australian share fund. Because the guy that runs the UBS Australian Share fund is a genius and he just gets great returns and it's going to be fantastic.

So, we think, oh, okay, right. We look at the research and we think about it. And so, we make a decision to do this. And no sooner had the last piece of paper come back with a client's signature authorizing us to do the transfer. And the guy, the genius at UBS left and set up his own shop.

Now my business partner Michael said to me, David, that can never happen again. That just can never happen again. Because, because every time you move money around, like from one active manager to another active, there's tax, there's transaction costs, there's buy, sell spreads. It's just, it's expensive, right?

So, if you make a business out of doing the movement of money, like just shuffling money around to look busy and look busier than the next person, you're actually costing your client a huge amount of money. And so, Michael saying, right, that's it. This can never happen again. We've got to find a different way to invest.

That started a mission.

Keith:
And when was that, David, when was that? What year is that?

David:
We started implementing asset class funds through dimensional in 2016.

Keith:
So, you were very early in the Australian story.

David:
Very, very early. We've now got an over 20-year track record of these portfolios, and we have never had to say sorry to a client. Yeah, we have never had to say sorry.

Keith:
So, you, it's interesting you used the word Fidelity. It's another example of a global brand. Fidelity's been in Canada for decades. And what you just described is exactly the kind of story that any investor would feel or could face anywhere in the world.

David:
So going back, having told that little story, I want to go back now and just give you a bit of a sense of our investment philosophy.

We've got some really strong investment beliefs, and the first belief is that we believe in long term investing, and we will not speculate with our client's money. We believe that successful investors are always and continuously acting on a plan.

So, we focus on long term value creation. We have built our investment philosophy around academic research. Much like you. You know the work of Eugene Farmer, Professor Ken French, Robert Merton and the like. It's been very good for us, and it's been very good for our clients.

The second belief we have is that an investment in shares is an investment in human ingenuity, because the whole point of a company is to create value for its shareholders. Now, good companies do that, but companies will come and go. But the return on the S&P500 index since 1926 is just a touch under 10% per annum. Now, no other asset class does that, and there's no reason to believe that that won't happen in the future. Now, will it be 10%? I don't know. Any investor with the appropriate level of saving can achieve their goals with that return. They don't need to seek out anything more. They need to capture that effectively.

Belief number three, we believe risk and return are related and that there's no free lunch. You've got to diversify. You have to diversify, and you have to be prepared to take the swings. So, you need to be prepared to take a market swing of 15% on your stock portfolio every year and probably a decline of twice that once every five or so years.

And that leads into the final belief that is all about good portfolio and behavioral hygiene. You know, good portfolio hygiene is all about keeping your costs low, trading activity low. You know, making sure you rebalance your portfolio so that the risk you think you have is the risk you do have. And then finally, sound investor behavior, you know, say a sound behavioral hype gene is essential to harvest the compounding returns that are available to us.

And that's where I think advisors are really useful. That's where I think we're incredibly useful because we make sure our investors stay strapped in their seat even when there's turbulence. You know, when you get on a plane and there's turbulence and the captain say, ladies and gentlemen, this is the captain speaking. We've got a bit of turbulence. I'd like you to return to your seat. I'd like you to stow your tray table and fasten your seat belt.

Keith, what do you do?

Keith:
You do it.

David:
You do it right. So, you do it because it's dangerous if you don't. And that's what I say to our clients when that happens. I'm the captain of the plane and I'm going to tell you to stow your tray table. I'm going to tell you to put your seatbelt on, and I can tell you to hold tight until your turbulence passes. And I expect you to do it well.

Keith:
It's A classic conundrum which is investors investor behavior and the traps that individuals fall prey to when you get into turbulent markets. You know, and right now we've got a little bit of turbulence, of course with these trade tariff wars that are going on. You know, you do hear worry. And so, you've got to reassure individuals and stick to what you talked about as principle number one.

We're in this for the long term. All the research shows that if you move money around trying to outthink where things are going and somehow be opportunistic, it's not going to be favorable and it's very hard for professional managers. Don't do it. So, what makes you think that you or that we or that any advisory group can do it?

David:
Yeah, absolutely.

Keith:
David, I want to return for a quick SEC to the investments, and we talked about the investment philosophy, and you've eloquently stated a few very, very strategic goals. Let's actually talk about the portfolio and when you guys build portfolios for your clients, what would a typical diversified portfolio look like? And let's not worry about allocation how much in bonds versus stocks. Obviously for some clients you're going to own bonds as it's a strategic component inside of a portfolio. But I'm really interested in your allocations around equities and what that looks like for an Australian in your firm right now as a client.

David:
We have quite a different approach here I think, and it's driven by tax.

We as a firm in an ideal world, I think you would probably have the total market weight in the client portfolio. So, you know, 50 something percent would be in US stocks, you know, an amount would be in Japan and Europe and about 3% would be in Australia because that's our, that's our total market cap weight of the Australian stock market as a percentage of the total global market. We don't do that.

We have about 60% of the client's portfolio exposed to, to a fully diversified global portfolio. It's about 6,000 stocks. Within that portfolio we have the exposure to large companies, value companies, small companies, more profitable companies, which I suspect is probably a reasonably familiar story for some of your listeners.

In a 100% stock portfolio, we would still hold 40% in Australian stocks, which is a very large home bias. Now the reason we do that that is. Well, home bias is a strange thing. You know, people like to invest in the companies that they buy from every day. So, the large banks, you know, Qantas, the, you know, the, the name brands that people know and understand.

But we also have a tax system where companies that pay company tax pass on a credit for that tax to the end investor. If, if a company earns a hundred dollars and they pay 30 cents in the dollar tax, they might pay me a dividend of 70 cents, but they also pay me a tax credit for the 30% tax that they've paid, which I can then offset against any other income that I've got.

So, it's a very, very attractive strategy for people who are retired or people who are very low tax in very low tax environments so they can claim those tax credits back. So, it's free money. It's a crazy system.

I'm not arguing that it's a good system and I'm not arguing necessarily that it's the ideal asset portfolio allocation. You have to pay attention to the prevailing tax rules when you build a client's portfolio that's in their best interest.

Keith:
Fair enough.

David:
I think in time we will see, particularly the younger clients and, and the clients who are less tax aware, I think we will see them have a greater allocation to global, like 70, maybe 80% with a smaller allocation to Australian stocks.

The world's becoming, even though the Trump administration is trying to unwind globalism, the world is becoming more global. And I think, you know, more and more, you know, we, we are recognizing that we're buying everything we have from all over the world. So, it makes no sense to be parochial, you know, wanting to invest 100% of our money in our own stock market.

Keith:
Yeah, for sure. I mean, we're. You're running portfolios about 40% Australian equity and 60% global, which would mean, you know, a fairly large chunk in the U.S. European, Asia and emerging market stocks.

And, you know, we're doing, David, we're doing essentially the same. We may not have quite as much in Canada, we're running about a third, a third, a third, a third in Canada, a third in the United States and a third in Europe in international markets. And sometimes instead of a third, it might be 40% in the US a little bit more. Just because it's such a large market.

Each of our countries has this home bias where most, and this would be contrary to what the rest of the investors are doing within Canada. Most Canadians have anywhere between 60 and 70% of their allocation to Canadian stocks. And I'm assuming that would be the same in Australia.

David:
Exactly the same—and it's mind-numbingly wrong.

Keith:
Your clients must be happy, though, because they have exposure to the US Market. And that's of Course, done very well in the last 10 to 12 years.

David:

But you know, I've been. Yeah, it has. I've been doing this for a very long time. And post 2000, you know, there was a period of 10 years where international shares were terrible compared to Australian shares. And that's actually the point, you know. So, there was a 10-year period.

Keith:

You have exactly the same thing as Canada, because we're both sort of resource countries.

David:

Yeah. But if you diversify broadly, like, I love the fact that our clients have got 6,000 stocks in their portfolio and they still get brilliant returns.

Keith:

6,000 global stocks?

David:

Yeah, yeah. Total, probably it's a bit over 6,000 total stocks in the portfolio. It's just, it makes no sense to bet the farm on Tesla.

Keith:
Not now, at least.

David:
Certainly not now.

Keith:
I'm not sure what the brand looks like in Australia, but it's really struggling in North America right now.

David:
Yeah, well, Australians are not loving EV's period.

Keith:
Listen, David, this has been a great conversation so far. I'd like to sort of end with a couple of final questions around your thoughts on the industry. Let's start with, you know, what are the big lessons you've learned in terms of building this incredible advisory and client centric firm that you have? What are the things you're proudest of and what are the lessons?

David:
Well, we've been voted by the Financial Planning association of Australia or the Financial Advice association of Australia. It is now the best professional practice in Australia three times. So, 2017, 2019, 2024. So, I'm incredibly proud of that because that's external, the peak body for financial planners saying, yeah, this is a very good firm, so that's cool.

The biggest lesson I think, Keith, is there's just such a tendency these days for people to think they know all the answers. And the older I get, and hopefully the wiser I get, the more curious I get and the more questions I ask. Because there are many ways to solve a problem.

One of the lovely things about having an evidence-based investment strategy is I get to see the amount of research that goes into testing and trying to break those strategies that we have our clients invested in. You know, the researchers are always trying to prove themselves wrong. And that's the beauty of science in that, in the context of finance.

And so when we look after other people's money and we're taking them on a journey, a lifetime journey of helping them achieve what's important to them, there's a lot of humility required and I think we just need to, to slow down ask ourselves lots of questions, make sure we're doing the right thing by people, never take anything for granted. Nothing in this world is set and forget.

I think that pausing for a moment causes us to stop and say, well, you know, if I were in the client's shoes, what are the services that I think I'd really benefit from and that I'd really appreciate and how would I like them to be delivered?

And so, I think there's great power in putting yourself in someone's shoes and looking through the lens from their point of view.

Keith:
Very well said. What advice would you give to individuals who are looking for a truly client-centric firm? What should they be looking for?

David:
Well, I think the top thing they should. You might think this is. I'm having a bit of a joke with a very serious question, but I actually think they should get themselves a copy of the Empowered Investor book. I really do. I've read it and I; I think it covers the questions.

I think it's really hard, you know, even you don't want to be referred into a big bank. You just don't. It's not where people want to be.

And finding the right independent advisor, I guess that's the answer. Don't do anything with any firm that's not independent. And I think you can ask that. Can you please demonstrate? Can you please show me, can you demonstrate to me the credentials that demonstrate that you are an independent firm and that you have my best interests at heart?

Our firm, for example, is a certified fiduciary firm. So, we can point to an external certification that says we're a fiduciary. We're legally obliged to deal with your best interests or operate in your best interests. But I think choosing a really good advisor is one of the toughest things people face, Keith. I think really hard. And you can't afford to mess it up. You can't afford to have a go. And then if it doesn't work out, try the next one. Like that just doesn't go well.

Keith:
In the end, it’s about making sure your interests are looked after.

David:
And if someone's selling to you, if someone's really trying to sell to you, run a million miles, because it's generally, generally not going to be in your best interests.

But if someone's prepared to take a consultant conversational, the sort of conversation that you would want to have with a friend and say, okay, can you. I've got a few issues I wouldn't mind unpacking with you. Can I have a conversation with you about this? And the person's got the patience and shows you the dignity of listening. That's a pretty good start.

Keith:
Well, that's a great way to wrap up today's show. David, I want to thank you on behalf of all our listeners and our colleagues across Canada. I want to thank you so much for joining us and sharing your thoughts. It's amazing to see how much we have in common, common interests, common goals, the way we've set our businesses up. And so, I really, really, on behalf of everybody, want to thank you for taking the time and joining us today.

David:
It’s such a pleasure. I hope you get some warm weather soon.

Keith:
It’s coming. Thank you so much—and we look forward to seeing you next week.

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