THE EMPOWERED INVESTOR

TULETT, MATTHEWS & ASSOCIATES

Winning Through Evidence-Based Investing (EBI)

Announcer: Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With his straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.com.

Keith: Welcome to episode 12 of the Empowered Investor Podcast. My name is Keith Matthews, and I'll be your host for today's show. In the last 11 shows, my co-host was Marcelo Taboada and we covered investment areas such as common pitfalls that investors face and why it's crucial to unify your financial and your investment plan in order to have a successful long-term outcome as part of the story of the Empowered Investor. We're going to be switching gears right now and moving on the investment side in particular. In previous shows, we've spoken about how important it is to have an investment philosophy, but we never really shared what that philosophy should look like. Today's show will introduce our listeners to evidence-based investing. Evidence-based investing, in our thoughts, is the very best investment philosophy that Canadian investors can have. Today I'm joined by my new co-host, Ruben Antoine. He works in our team as a portfolio manager and lead client advisor. He's been doing a phenomenal job for five years, and we're going to talk about his personal story. I think it's an amazing way to introduce our listeners to evidence-based investing. And then we'll really wrap the show up with definitions and more characteristics of what this important philosophy means. So, Ruben, welcome to the show.

Ruben: Thank you, Keith. Listen, I've been following the podcast for the past few weeks. I listen to each and every episode, and I was really looking forward to joining you as a co-host. So, I'm really excited right now.

Keith: Good. And for the benefit of our listeners, Ruben is, as I mentioned, a portfolio manager and lead advisor. He's an accountant. He has his Chartered Financial Analyst degree. We'll learn a lot more about that in the show. Ruben, why don't you tell us a little about exactly what you do at our firm?

Ruben: Yes. So, I work as a portfolio manager and a wealth advisor at TMA. What that means is that I help our clients in not only managing their investment portfolios but also in their financial planning and their tax affairs. Basically, the goal is to help them achieve their long-term goals, help them realize their dreams, and hopefully help them stay on track to be secure forever financially.

Keith: Very comprehensive. And I will say that you have a very interesting background. We will learn more about this in our show, but what made you become a financial advisor to individuals? What was the driving reason for that?

Ruben: Yes, the first reason I will say, first of all, finance in general is my passion. I like working in finance. I like reading about it. All the podcasts I listen to are about finance. So, I have an interest in the financial industry and also investment. But the main reason I would say why I'm working as a financial advisor is because, first of all, I like working with people. I like helping them in achieving their dreams. I think if we take, for example, if a client wants to send their kids to a university in the U.S., a good university, an expensive university, or another client who would want to retire and buy a place in the Caribbean, for example, I think the most inspiring moment in our role working as a financial advisor is when a client will call us to say thank you because you helped me achieve those goals. So, that's the main reason why I'm working as a financial advisor because it allows me to combine not only my passion in finance but working with people and helping them achieve their personal and financial objectives.

Keith: Very nice. Very nice. You have an amazing background, Ruben. And let's start digging and diving into it a little bit. Often in our discovery meetings with new clients, we ask them questions like, "Explain to us how you grew up. What was elementary school like? What was high school like?" and "Talk to us about how your family dealt with money." So, I'm going to ask you questions about that because I think that helps describe a person's DNA and it allows us to understand what makes you tick and why you do things. So, talk a little bit about elementary school and high school. What was it like growing up for you?

Ruben: If we start from the beginning, I was born in Montreal to Haitian parents. When I was four, my parents chose to leave Canada to go back to Haiti. Just a quick fact, as everyone knows, Haiti is one of the poorest countries in this hemisphere. Most immigrant Haitians, when they have an opportunity, when they find the occasion to leave Haiti and go to more developed countries, they take that opportunity. But my parents actually did the opposite. They had the security of living in Canada, but they felt that there were too many people in need in Haiti. So, they decided to go back to help and to serve. I spent 10 years in Haiti. I grew up and spent all those years seeing my parents helping people, serving people, giving back. This stuck with me my whole life and influenced the career I chose and what I do afterwards. But then, after 10 years, when I was around 14, we came back, my brothers and sisters and I, to Canada so that we could pursue our post-secondary studies.

Keith: That is so very interesting. And I think it's very telling, Ruben, that you saw your parents being role models essentially helping and wanting to guide and wanting to serve. I think to be a great financial advisor, our role is really one of being a guide and one of being selfless and trying to help. So, I think that's a very unique upbringing that you had. Very unique. With regards to high school, what was that transition like? So, here you are, you were probably, what, 14, 13, coming back?

Ruben: Yeah, so when I was in Haiti, we were still spending some summers in Montreal. But I started my high school in Haiti, and then when I came back, I continued finishing the last two years of high school at Brébeuf College in Montreal, a private college in Montreal. So, that's where I went. Then, I went on to another CEGEP to study business at Maisonneuve, and then I continued my business studies at university. I went to HEC where I did a bachelor in commerce in business with a minor in accounting.

Keith: Very nice. And so, while we're speaking of backgrounds, how many languages do you know, Ruben?

Ruben: I speak French, Creole, Haitian Creole. In Haiti, the two official languages are French and Creole, and English as well. I do have an accent, as you can see, but English was the third language I learned later on in my life.

Keith: You're one of the best communicators I know. I can say that in at least two languages. I can't judge your Haitian, but you're very strong in English and French.

Ruben: Yeah, the funniest thing is that I have an accent in every language. When I speak French, I have a Creole accent. When I speak English, I have a French accent. And when I speak Creole, because I've been living in Canada for a while, the real Haitians will say, "You're Creole, you do have a mixed accent as well."

Keith: You can't win that, is that what you're saying?

Ruben: Yeah, yeah.

Keith: All right. So, listen, I should say HEC is a business university in Montreal, a very good business university. You've got your CA there. What did you decide to do? You worked at a small CA firm for a few years doing, is it articling? Is that the right term?

Ruben: Yes, exactly. So, after doing my accounting degree to become a CA, now it's called a CPA, Chartered Professional Accountant, you have to spend some time working as an internship and get some professional experience in an accounting firm. So, I started working in a small local accounting firm providing accounting, audit, and tax services mainly to individuals but also to business owners. That was my first experience really in tax and accounting. And I do think that even if I'm not an accountant today, that experience is still serving me now because we do have clients that are business owners. Clients in general have tax issues. So, I think it's a good skill to have to be able to better serve my clients now with the tax and accounting knowledge.

Keith: Absolutely. Integrating tax in with the investment and planning is critical and definitely something that end clients or Canadians appreciate. So, you did your three years of articling, and then what did you do? You went down to BVI. Why did you go down to BVI and who did you work for?

Ruben: Yes. So, back then, after I got my CPA, my CA qualification, I had two main goals in my life. One of them was a personal goal. I wanted to have an international experience, traveling, seeing other countries, other experiences. Also, I wanted to improve my English because, like I said before, that's the third language that I learned later on. So, I decided to combine both goals where I would try to find an opportunity to work in an English-speaking country but also in another country to experience new things. And I was really fortunate to find an opportunity to go and work for a big four accounting firm in the British Virgin Islands, a small island in the Caribbean. Again, it was a two-year contract. I moved there with my girlfriend. Beautiful countries. The BVI is like 40 islands. It's pretty well known for sailing. You went on a sailing trip there, Keith.

Keith: Yes, I've had the good fortune of sailing. I'm a sailor from a very young age and in my mid-forties, I did my very first trip in BVI. It's just a spectacular place.

Ruben: Yeah, exactly. The BVI is well known for sailing and all the tourism industry, but it's also their second sector in their economy is finance. So, a lot of the world's investment funds are domiciled in the BVI, in the British Virgin Islands. So, all my clients when I was working for that firm, the accounting firm, were mostly investment funds. And I was working as a senior auditor for those clients. And that's how I got my first exposure, if I can say, to the financial industry.

Keith: You were doing control, you were doing monitoring and possibly even auditing of investment funds.

Ruben: Yes, just to explain the role I had there as a senior auditor. Basically, what does an auditor do? Those investment funds, when they produce their financial data, their financial statements, all their accounting books, before they can present those books, those performance data to their clients, to their investors, to their lenders, to the government, etc., they have to hire a firm like that accounting firm and auditors to come and check and attest if those data are accurate. So, my role was to visit those investment firms and review their performance data, their accounting books. And then write a report where I would say all the numbers are accurate.

Keith: What kind of investment funds were you auditing?

Ruben: Most of them were what we call in our industry alternative investment funds. So, hedge funds, for example. A hedge fund is basically an investment fund that uses its client's money. So, the investors, they use the client's money to invest in the market. And the goal is that they are trying to either beat the market or provide a better performance than the overall market but using very complex strategies like using derivatives, using leverage, using arbitrage. So, it's another type of active investment where they are trying to actively outperform the market by predicting what's coming or by trying to select some stocks.

Keith: Yeah. Hedge funds are considered the sort of the supercharged active money managers that over the past three decades have really marketed themselves to the ultra-high-net-worth investor. Their pitch is "give us money and we will somehow get you better returns than either the market or better risk-adjusted returns. And for that, you will pay us handsomely." We've never endorsed the hedge fund business, and we don't believe they should be included in client portfolios, but what did you discover?

Ruben: To continue to your point, they will charge very large fees because they will claim that they can provide extraordinary returns. But what I discovered, and just as a reminder, I was really diving into those data. I was looking at the performance, and it was very surprising to see that even if they claim they can provide those big returns of outstanding performance, it was not the case. It was not the case. And that was a big aha moment for me because I was wondering. Why would an investor pay sometimes 20 percent of fees on the performance of the hedge funds? And then when you look at the data, when you look at what the hedge fund did deliver, the hedge fund will not be able, over a certain period of time, to outperform simple investment vehicles like an index, like the S&P 500, which basically costs almost nothing to invest in. So, that was a big surprise for me. And that's when I would say I started wondering, is there a better way to invest? Those are the fancy investments that many people want, but they are not actually delivering the returns. So, that's when I started researching more about different approaches to investing.

Keith: And that is so cool because essentially what you're saying is you had the microscope right over the data. You're looking at returns. Your firm and your services had to almost prove, acknowledge, and audit the return numbers. And only after you guys looked at it could it be released to the general investment public and fascinating to see that you saw that. At a very young age, most people are recognizing this concept that indexes or passive investments can actually outperform way later in life. And at the core of the Empowered Investor is this simple concept. It is part of the investment approach that we're going to lead our clients through. And for you, how old were you when you realized this?

Ruben: When I moved to the British Virgin Islands, it was in October 2008. So, I was right in the middle of the 08-09 financial crisis. That's the other funniest fact about that whole experience is the name hedge funds. Hedge means kind of protection. So, some hedge funds will claim that they can protect their investors when there's a financial market crash. Like we were experiencing at the time. And again, I was very surprised. This was a big discovery for me to see that not only can they not perform the market over the long term, those types of active funds cannot protect investors like they said they would. A lot of them went down as much or even more because they use leverage, for example, even more than the market. So again, that's another example that those externals are not necessarily delivering what they claim they can.

Keith: So, Ruben, are you going to disclaim your age now?

Ruben: I was 24.

Keith: 24. Okay.

Ruben: People can make the calculation. Now I know how old I am.

Keith: Yeah, I think that's great. Listen, at 24, 25, to be exposed to that kind of information at such a young age is fantastic because what you pick up there, you'll be able to carry and use for really the rest of your investment and client career.

Ruben: Yeah, definitely. And like I said, I started understanding why those active funds with fancy strategies and really high-skilled managers coming from big institutions in the U.S., if they cannot outperform the market and provide better returns, like who can? So, I started researching, reading about it, and that's how I discovered evidence-based investing. That's how I discovered that there's a better way, more transparent, more cost-effective, that I think most investors should know about.

Keith: I think you have a wonderful personal story, and I think that's why it's so fitting that this is the introduction to evidence-based investing. But let's keep your story going just a little bit longer, Ruben. So, you're in the BVI, you've done two years in auditing hedge funds. You now have discovered a passion for investing. You then embark on the CFA, the Chartered Financial Analyst degree. Which for the benefit of the audience is probably the most demanding investment program you can take. You don't go to school. It's done outside of school. The exams are grueling. Pass rates are anywhere from 30 to 50%. Usually, it can take three to five years to get. Ruben got it in consecutive attempts. So, that's a fantastic background, Ruben, to have the CA and the CFA together. So, then you decide with your CFA, you're off to London or did you get your CFA in London?

Ruben: Yes. Yes. So, basically the CFA is three exams, one every year. So, you can do it over 2.5 or three years. I started my CFA in London. So basically, after my experience in the BVI, I've learned a lot and I discovered my interest in finance. So, I decided to try to switch from accounting to a more finance role. And I think one of the best places to get more financial exposure is in London because London is one of the largest financial centers in the world. So, when I was in the BVI, I went on a trip to London and I saw it's a wonderful city to live in. So, my girlfriend and I decided to move to London and I was working for a private equity investment firm. And while I was working there, I started my CFA that I finished when I came back to Montreal, but I did start it in London. Yes.

Keith: Okay. Very nice. And what did you do for the private equity firm?

Ruben: Yeah. So, the private equity firm, I was working as a financial controller. So, I was responsible for overseeing the accounting of all the investment funds that they were managing. I had other responsibilities like working with the investment guys in helping them build financial models. So, still an accounting role but with a lot more financial exposure while I was studying for the CFA. A lot of good learning, a lot of good experience. I think it's great to have experienced those different ways of investing because this experience helped me in understanding and appreciating evidence-based investing.

Keith: Absolutely. Ruben, I always remember when I first met you, I guess it's five and a half years ago when we were looking for an associate, someone to work in private client work, an associate or a portfolio manager. We put the application out, 130 applications came in. I would sift through the 130, and I pulled sort of the 15 follow-up. So, these 15 I've called personally. I spoke to each one. It took quite a long time. We were really trying to be very diligent. And I remember seeing Ruben's CV, and I go, "Wow, this person appears to be about 30. And I cannot believe the background that he has acquired up to this point. It is impressive. Why is he applying for a private client role?" It just didn't seem obvious. The next role would have been something like, I know you were currently a VP at that point. It would have been something like VP more on the pension, institutional, maybe even hedge fund side. In speaking with Ruben, I remember him saying, "Please don't hold this against me."

Ruben: Yeah, I remember you were saying the hedge funds, all those words on my CV, hedge funds, private equity, and you were like, "I don't know if that person is the right person in terms of investment approach."

Keith: Part of me would say, "Ruben, do you know what we do? When we build a portfolio, we use these index products to capture asset class exposure. This is not the world you have come from." And then Ruben had to be very strong and stop me and say, "Keith, listen, I've experienced the other side. I know what I want now, and I want to work with private clients, and I want to work in an environment that has an evidence-based investment philosophy."

Ruben: I think that's one of the aspects I appreciate the most about that whole international experience and experiencing different types of investing, different firms, different countries. When you have a diverse background, you get to know more about yourself. And what I found out is, I was working in hedge funds, I was working in private equity in London. And when I came back to Montreal, because of that experience in those industries, I had an opportunity to work as a VP for a firm providing services to hedge funds and private equity again. But all those experiences, I worked with brokers, investment bankers, hedge fund managers. And although I've learned a lot, it was an amazing experience. What I found out is that many areas in finance, the focus is on increasing profits, trading risky securities, and it's not always in the client's best interest. So, by then, in 2014, I completed my CFA. So, that's when I was like, I need to change, go to a career that suits my values, a more client-centric approach, looking at their interests, the client's interests, not the firm's, and also an investment approach that I feel comfortable with. So, that's when I started applying after my CFA, and I found that opportunity, that job description. I remember back then in 2015, that everything that was written on that job description was exactly what I was looking for. So, when I applied and I had that call with you, Keith, and I felt that you were hesitating because of my experience, I had to be quick and say, "Listen, this is exactly what I want to do." And I'm happy that it's been five years now that I'm working at TMA. Here we are now. And it was the best choice ever.

Keith: It's your DNA and your background that has pointed you in this direction, and you're thriving and doing amazingly well. And it's funny, as I listen to you right now, I realize that Marcelo had something similar, who was co-hosting the previous shows, and I had something similar. All three of us have actually worked in, Marcelo worked for a large mutual fund wholesaler. And I was in institutional bond sales and trading. And you come from that side that you've just described. We all got the inside look at all active money management.

Ruben: Exactly.

Keith: All three of us essentially said, "You know what? It's interesting, but there's a lot of smoke and mirrors. Unfortunately, there's a lot of even BS on that side of the business." And evidence-based investing is, in our view, a cleaner, more straightforward way to conduct business. Very transparent. So, let's switch gears a little bit here, Ruben, and start getting a little bit more into evidence-based investing. What's your definition of evidence-based investing? And I'll throw a couple in too, myself, and let's start the discussion.

Ruben: I think to start with, the best way to describe it is to explain to the audience, in money management, there are many investment approaches, many strategies. And we can classify them into two general types. There is a more conventional, traditional way of investing, what people tend to refer to when they say investment because that's what they are seeing on the news and that's what they are reading in the newspapers. It's what we call active investment. So, we were talking a lot about hedge funds before. Hedge funds would be on that plan, trying to outperform the market, do better than the market by using active strategies. And this is one way of investing. So, there's different strategies. Some managers will try to pick stocks. They will say, for example, there are 40 to 50 thousand stocks on the stock market. I can pick the five, 10 stocks that I think will be the next Amazon or will outperform the market. So, this is based on the manager saying that they can predict the market or they have some kind of intuition, etc. That's one way of investing. And the other way of investing is what we call evidence-based investing. It's not relying on trying to predict the market. It's not relying on trying to pick stocks. It's not subjective. It is based on science. It's a more methodical, scientific approach to investing. Where this came from is basically the academic world, some researchers that look at long-term market history. They study all the data and the capital markets' performance and where performance should be coming from. And they realized that there's a better way to invest based on those data, which is basically taking exposure to the whole asset class, the whole market, certain sections of the markets, certain regions by buying the whole asset class and structuring a portfolio around that, around the source of return. And not trying to predict the market, not relying on noise, on prediction, on the economic news. And this has been proven to be a better way to invest over the long term and provide better performance over the long term for investors.

Keith: Absolutely. And so, in the previous shows, we've spoken about why investors need to have an investment philosophy. So, first and foremost, you need to have a structure that you can believe in, a structured approach, a philosophy, a set of principles, and it's critical to have that philosophy. So, what we're talking about today is this philosophy called evidence-based. So, Ruben, you've highlighted some wonderful points in there, but the only thing I would add is that it's not new. Evidence-based is something that's really been around, I would say, since the seventies, growing slowly albeit from the seventies to the eighties. And it started off with research, much of it coming out of university capital market thinking groups, where they were studying stock market returns versus active investment returns, active strategies that were trying to pick trends, pick fads, strategies that were trying to overweight sectors and be opportunistic, things that make sense. If you're a consumer, you'd say, this stuff obviously can work. Somebody can find opportunities for sure. But the science behind it said, let's actually study it and see if they're actually adding value. And to their surprise, they discovered that they weren't really adding value. And this has been a theme now for almost 50 years. So, we have 50 years of research coming out of basically the study of returns. And so, we're going to be really focusing the next four or five episodes on the specific principles that we find within evidence-based investing. So again, this is an entire philosophy. The philosophy is made up of four key principles. And in the next shows, we'll walk through each of those principles, but they are essentially: invest in asset classes versus stock picking and stock market timing. They are: diversify your portfolio across multiple asset classes as principle two. Principle three is: within those asset classes, use index or passively managed pure strategies to capture your exposure. And principle four: to increase returns, tilt to factors. Now, each one of these will make up one episode, or we'll really do a deep dive on it, and we'll have a few guests as well to help us through on that part. Looking forward to it. So, what do you think? Any last comments or words on evidence-based investing? What are your takeaways with regards to that philosophy?

Ruben: So, my takeaways and what I want the audience to take from that discussion is the active way of investing tends to rely on expert opinion and prediction. And there's a lot of human biases in that way of investing. So, I think evidence-based investing is the best approach for investors. That approach will put the long-term odds in the investor's favor. That approach removes all the noise and all the subjectivity. There's a lot of benefits from that approach. It's transparent, it's tax-efficient, it's cost-effective. So, I do think that over the long term, that's where an investor can get the best outcomes.

So, this is what we do for all our clients and in our personal portfolios. And I highly recommend it.

Keith: So, you've mentioned a few points in passing, but we are passionate about this investment approach. And so, for the next bunch of shows, we are going to be doing a deep dive in some of these areas. And we want to show the listeners the merits of this approach and help Canadians become more aware. My takeaway would be this: a philosophy is at the core of the Empowered Investor. We've been helping Canadians now for close to 25 years. The message of wanting to increase financial security long term has to be matched with a winning investment philosophy. So, Ruben, your story today was so helpful, I think, and so interesting in terms of how a young man discovers evidence-based investing. And thank you for sharing. Thank you for walking us through.

Ruben: Thank you. It was a pleasure.

Keith: And I'm so looking forward to doing our next bunch of shows together. So, Ruben, thank you again. And for our listeners, thank you so much for tuning in, and we will see you in two weeks.

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