

25 Questions Everyone Should Ask Their Investment Advisor

Q & A with Darcy Morris, Investment Advisor at MacDougall, MacDougall & MacTier Inc.

On June 9, 2009 the Globe & Mail published an article by Dan Richards outlining 25 questions that every investor should ask their Investment Advisor. We've taken the time to address all of them. Please click [here](#) for the full article from the Globe and Mail.

General Background

1. How long have you been in the financial industry?

I've been involved in the financial industry for 7 years. Prior to joining MacDougall, MacDougall & MacTier Inc. in January 2009, I spent four years at Burgundy Asset Management, one of Canada's top private asset managers, where I was trained in investment research, equity trading, client service, and accounting. In the fall of 2008, I travelled to mainland China and India meeting with North American-listed public companies in Tier 1 and Tier 2 cities.

2. What made you decide to pursue this as a career?

When I was 15 years old my mother suggested that I should learn something about the "money" business. That following summer I interned at Cantor Fitzgerald Securities Inc. on their fixed income trading floor which consisted of 70 brokers. The people working on that trading floor came from everywhere – the British Army, Harvard Business School, even street-smart high-school grads -- and I loved the camaraderie, mix of characters and sense of competition.

When I graduated from Queen's University I was hired by Burgundy Asset Management Ltd. and I immediately fell in love with the investment management business. Investment management combines the competitive spirit of trading with the intellectual rigor of making investment decisions based on analyzing underlying operating businesses. Being an investment advisor also provides the opportunity to work and interact with people of all backgrounds and help them put their hard-earned savings to work.

3. What kind of qualifications do you have?

As I mentioned earlier, I've worked on all sides of the investment business – investment research, equity and fixed income trading, client service, accounting and even operations. I feel lucky to have such a well-rounded professional work experience. The year I spent in the Accounting Dept. at Burgundy Asset Management really helped me learn the "language" of finance and how to read financial statements.

In terms of professional designations I've completed my Canadian Securities Course, Conducts and Practices Handbook exam, Professional Financial Planning Course, Wealth Management Essentials exam and the first level of the Chartered Financial Analysts program. My goal is to become a certified Portfolio Manager.

4. Tell me about the firm you work with? What attracted you to this firm?

MacDougall, MacDougall & MacTier has been in business for approximately 160 years. The company was one of the first brokerage firms in Canada and has managed investments for some of the country's wealthiest families throughout the past century and a half. I was attracted to "3Macs" mainly because of the focus on family (both with clients and employees), its strong tradition and history, and the firm's flexible style of investment management and service. There are some great investors and mentors here as well like Bart MacDougall, Tim Price, Charles Kennedy and my partner Wilf Dinnick.

Fit and Chemistry

5. **We all have preferences in the people we work with. What's the most important thing you look for in a new client? Describe the kind of client you find you work best with?**

I look for like-minded clients. That means that they are entrepreneurial, long-term focused and would rather have their hard-earned money invested in good companies at good prices as opposed to day-trading speculative stocks or in a mass mutual fund.

6. **What's the average asset level of your clients? How many client households do you work with – and where do new portfolios fit in?**

Our average assets per client are currently around \$120,000 and I have 23 client households that I work with. While each client holds a segregated portfolio, new client portfolios are modeled on our proxy portfolio and individually-tailored according to risk tolerance and time horizon. At this stage, we have no minimum investment requirement.

7. **Tell me about the last couple of clients who left you and took their account elsewhere. Have you had any client complaints to your firm in the past couple of years?**

Fortunately, I have had zero client turnover and zero client complaints.

General approach

8. **Do you typically complete financial plans for clients like me? What would be covered in this plan? What would the process be to develop this plan?**

We interview our clients and ask them to define their goals and objectives in terms of savings need, financial objectives, return expectations and risk. This information is then combined with a variety of constraints, such as time horizon, liquidity, tax concerns, legal requirements and personal preferences. This process is ongoing.

9. **I know some advisors put their primary focus on getting the investment process right while some others also get into issues like insurance, tax planning, estate planning issues and retirement planning. Where do you fall on this spectrum?**

My focus is primarily on the investment process. We do, however, have the resources available to go over all of these planning issues with clients. As a firm, we offer the full spectrum of investment services including an in-house tax department which will assist clients with a comprehensive tax plan for their investment needs. We are also able to provide Executor assistance and estate settlement facilities.

Investment philosophy and your portfolio

10. **What's your investment philosophy and process? In your experience, how is this different from other advisors?**

Wilf and I manage investments from a global perspective with the belief that owning outstanding businesses, at attractive valuations, generates superior long-term performance. We take a business approach to investing and recommend companies that we can understand and are trading at a discount to their intrinsic value. We will build your investment portfolio on a company-by-company basis using a long-term buy and hold approach. We invest directly in securities on behalf of our clients and we do so using concentrated portfolios. Our size also allows us to invest in smaller-capitalization companies than most mutual funds and to be more nimble in how we allocate capital. These are some of the structural advantages that we enjoy as a firm.

11. What kind of changes would you recommend in my current portfolio? Tell me more about your reasoning for these changes. Which of my current holdings would you suggest we retain?

We think it is prudent and good business practice for investment advisors to be highly aware of their clients' situations and make an effort to keep up with their state of affairs. Investment advisors need to understand and document their clients' personalities, attitudes toward investing, experiences with investing, personal and financial situations, goals and objectives, tolerance for risk, and more, before we can recommend changes to an existing portfolio. That said, I would be very happy to do a complimentary review of anyone's current portfolio if they were to contact me.

12. I know that some financial advisors build portfolios of stocks and bonds for clients themselves, some delegate this to money managers and some do a combination of two. Tell me about your approach this.

For the most part, we employ an active investment strategy and use a bottom-up approach to building portfolios. This means we allocate assets into: Large Cap, Mid Cap and Small Cap securities. We then select securities based on in-house research.

We also work closely with [Francis Chou](#), who manages a group of award-winning value-oriented mutual funds. He is our first choice in regards to outside money managers.

13. How do you go about building portfolios or choosing money managers? To what extent do you rely on research from your firm or outside parties in selecting stocks and money managers? How do you go about monitoring portfolios or money managers?

The research process is never ending – we read, interview company management, and conduct research in the field! We also network with smart investors and we keep our eyes open for investment opportunities 24 hours a day, 7 days a week. We have access to the research from the big banks but we rely most heavily on our in-house research, company filings and meetings with company management.

Our investment approach involves evaluating individual companies, and their managements, through fundamental research and analysis. Specifically, we look for resilient businesses with strong balance sheets that can sustain profit margins, cut costs and maintain cash flows. There is a direct relationship over the long-term between stock performance and earnings profitability so we look to identify high-quality companies with real earnings and significant growth prospects.

We generally take a contrarian approach and seek out companies that other investors might avoid or overlook due to negative events, temporary issues or market capitalization restrictions. We look for undervalued companies with security prices that are trading significantly below our estimation of intrinsic value. This is designed to provide a margin of safety to protect capital as well as build wealth. Typically, we sell a company's securities when their price meets or exceeds our estimate of their value.

There is empirical evidence that shows a disciplined value-investing approach provides superior returns so we are not as concerned about the short-term performance of stocks or money managers as we are about following a disciplined strategy over the long-term. We think our clients should hold us accountable in this regard as well.

14. I understand that there are two schools of thought about trying to get in and out of the stock market. I know some advisors are fairly proactive about moving parts of portfolios to cash if they think the market is poised for a correction, while others believe you can't effectively time when to get in and out and tend to be fully invested all the time. Where do you stand on this issue? As well, what's your stance on making calls on getting in and out of individual sectors such as energy?

The S&P 500 has compounded returns, including dividends, at close to 8% over the past 100 years, yet many investors have had experiences losing money. I think this is mainly because of high transaction costs, excessive trading based on fads or tips; and a belief that investors can time the market. We don't try to time the market, but rather focus on the underlying companies in our portfolios and the price they are buying or selling at. I like to think about the Forbes 400 wealthiest people in the world and remind myself that none of them are on that list because they continually timed the broad markets.

Communication

15. **How often do you typically meet with clients like me? How long do those meetings last? What do you cover in those meetings?**

We report quarterly with an investment commentary that demonstrates our investment philosophy and approach in action and includes in-depth analysis of portfolio companies. We meet with each client once a year for a formal investment review which typically lasts an hour.

16. **How have you been communicating with clients like me since last fall? What have you been doing differently as a result of the market events since September?**

Since last fall we have been communicating the same way we always have. The market events of last September taught me to never ignore the systematic risks that affect all asset classes and to be aware of where we are in the economic cycle. When multiples are contracting, savings rates are rising and housing prices are slumping, most assets are going to be affected. It also reinforced the need to be prepared to act when a crisis happens – this past September offered maybe an once-in-a-lifetime opportunity to buy stocks at incredibly cheap prices.

17. **How frequently do you call clients like me between meetings? How long does it typically take to return calls from your clients?**

We usually call or email clients when there has been a material change in their portfolios or if there is an investment idea or article that we deem of special interest. A lot of how we communicate depends on how much the client would like to be involved – many of our clients prefer less communication so that they can focus on their own businesses and we can focus on their investments. We return calls on the same day unless there is some sort of extenuating circumstances.

Compensation

18. **In ballpark terms, what would my annual fee be if we worked together, including fees charged by money managers?**

We charge a management fee based on a below scale of assets:

<u>Annual Management Fee</u>	
First \$500,000	2.00%
\$500,000 - \$3 Million	1.50%
\$3 Million - \$5 Million	1.00%
\$5 Million plus	0.75%

19. **How are you paid? What kind of money would you make on my account annually? What would I get for that?**

I get paid between 35%-50% of the gross fees charged to clients. Aside from providing advice and trading services, clients receive transaction confirmations, monthly statements/quarterly valuations, on-line account access, cash management services, account administration and year-end income summaries and capital gains/losses summaries. Our management fee structure means we are incentivized by growing, not trading, your account.

Support

20. Tell me about the team that you have supporting you?

Wilf Dinnick is the portfolio manager for our accounts and he has been in the investment business for over 45 years. He was formerly the Head of Sales at Wood Gundy and has been at 3Macs for 12 years. Wilf's passion for reading and current events translated to his son, Wilf Dinnick Jr., who was the foreign correspondent for the Middle East at CNN. Wilf's daughter Sarah currently lives in Barcelona, Spain. Wilf is a great investor and many consider him to be a bit of a "legend" in the Canadian investment business. He's 73, sharp as a pencil and still one of the hardest workers at the firm.

Donna Whalen is our Sales Assistant and she has been in the investment business 25 years – all of them with MacDougall, MacDougall & MacTier. She is the point woman on all of our administrative and trading issues. It's not uncommon that I'll receive a voicemail from Donna at 10pm on a weeknight with an idea to better our business or better serve our clients.

21. Would you be my primary contact or would I be dealing with one of them day to day? What kinds of issues would I be talking to them about as opposed to you?

I am the primary contact for all of my clients although they can speak with Donna and Liz about administrative and trading issues.

The last 12 months?

22. How did you position client portfolios like mine going into the beginning of last year?

We were positioned in defensive areas and we moved assets to cash after the collapse of Lehman brothers. We had zero exposure to the financial sector and managed to get through the year with a positive return.

23. What kinds of changes have you recommended to clients since last fall? What kind of advice are you providing to clients like me today? What are you doing to manage risk in client portfolios in light of how uncertain things seem to be these days?

We focus on risk before focusing on return. This is not risk in the form of beta or volatility but risk in the sense of how much capital is at-risk. This approach is different from much of Bay St. where investment reports tend to be written using single point estimates focusing on the upside, with rarely a mention of the potential downside risk.

We also manage risk by striving for absolute returns. The world seems to focus on relative performance instead of absolute performance and this means most investment firms will have mediocre results as many just try to lose less than their peers. By focusing on absolute performance, the thought of losing any of our clients' capital is unacceptable.

Another way we try to manage risk is by employing a bottom-up investment approach. Most of the world employs a top-down investment approach by analyzing the economy, interest rates, etc. and then applying these findings to decisions to invest in certain sectors that should perform well in the relevant environment. While we still think about the macro environment, we analyze investments using a bottom-up approach.

24. **Without getting into the actual dollar amounts, in general terms, would you be willing to share what you held in your own portfolio going into last fall and what your own portfolio looks like today?**

My own investment portfolio holds many of the same investments that are held in my clients' accounts. There are a few discrepancies but not many. I also manage investments for many of my family, friends and relatives.

25. **In your opinion, what are the most important lessons you've learned as a result of the events of the past year?**

If I've learned anything from the crisis of the past two years, it is to be aware of where we are positioned in the macroeconomic cycle. Being aware of the big picture doesn't mean I won't continue to emphasize bottom-up analysis, but it does mean worrying about certain industries and having some insurance for foreseeable macro risks – even if they are hard to time. Right now I think we are much closer to a trough in the economic cycle than a peak.



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