

# INVESTMENT PRINCIPLES

INFORMATION SHEET FOR INVESTORS



# INTRODUCTION

## **IMPORTANT NOTICE**

The term "financial advisor" is used here in a general and generic way to refer to any duly authorized person who works in the field of financial services, including the following:

- Investment brokers
- Mutual fund brokers
- Scholarship plan dealers
- Exempt market dealers
- Portfolio managers
- Investment fund managers
- Life insurance agents
- Financial planners (F.Pl.)



Copyright © 2016 CFA Montreal. All rights reserved.  
Reproduction in whole or in part without written permission of  
CFA Society Montreal is prohibited.

While retirement planning is a daunting task, even for experts, it is of utmost importance. No one wants to be in financial distress during retirement after a lifetime of work. A proper retirement plan can extend for several decades before and after retirement. Furthermore, the process is fraught with uncertainties and difficulties. For example, even if we set specific income goals for retirement, it is difficult to estimate how our savings capabilities will evolve over time and what level of investment returns financial markets will deliver. In addition, there are complexities related to the long-term impact of taxation of investment income, investment fees, inflation, choice of asset allocation, family obligations and so on. Overall, determining how much to save and how to invest is a challenge.

Although there are many factors to consider when designing a proper retirement plan, a small number of key considerations significantly increase the odds of success and account for much of what we need to know as investors. The following documents cover essential investment dimensions that all investors should know about. In the end, making informed decisions and using common sense can increase by a third or more the retirement income that can be expected when the savings horizon is as long as 30 years.

This series of documents is divided into two parts. The first six documents (1 to 6) deal with the mechanical aspects of investing and the role of investment advisors. These six documents cover investment principles that remain true for all investors, whatever their nationality or income bracket. The second series of documents (7 to 12) deals with the art of investing, more specifically how to cope with the many nuances and uncertainties related to retirement planning. On the following page is a list of all twelve topics:

- 1. THE POWER OF TIME AND RETURNS**
- 2. THE IMPACT OF FEES**
- 3. THE IMPACT OF TAXES**
- 4. THE IMPACT OF INFLATION**
- 5. THE IMPACT OF DIVERSIFICATION AND RISK**
- 6. THE ROLE OF AN ADVISOR**
- 7. THE INVESTOR'S TOLERANCE FOR RISK**
- 8. WHAT DRIVES MARKET RETURNS**
- 9. HOW TO DIVERSIFY**
- 10. BUILDING PORTFOLIOS**
- 11. THE INCOME I CAN EXPECT FROM MY SAVINGS**
- 12. PUTTING IT ALL TOGETHER**

To keep matters as simple as possible, we will build on the same initial example, which will become more complex as we progress. By the end of this effort, you may not have become an expert, but you will be able to recognize what is truly relevant to your retirement planning, be in a better position to have a pertinent discussion with your advisor, and hopefully avoid some of the costly mistakes made by so many investors.

We sincerely hope this education effort will improve the quality of asset management for the average investor.

Jacques Lussier, CFA