

## Smart Money: Things they aren't telling you

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2 days ago



Brad Brain: "In my experience, successful people will see their financial situation grow and evolve over time." | Sean Gladwell / Getty Images



There are people in the financial industry that will use popular financial slogans to try to convince you that their way is best. I'm not saying that these slogans are wrong, just that sometimes they are incomplete.

So let's talk about the things that they don't tell you.

Example one. You may have been told "buy term and invest the difference" when it comes to life insurance. What they are trying to say is that term life insurance is less expensive in the earlier years than permanent life insurance, and if you took that cost savings and invested it you could end up farther ahead.

That sounds good, but what they aren't telling you is that term insurance renews at ever-higher prices. Or that although term insurance is a great fit for income protection needs it is also a lousy fit for estate planning. Or that people often come up short when it comes to actually investing the difference in premium.

In my experience, successful people will see their financial situation grow and evolve over time, and their insurance needs evolve too. Successful people don't need term insurance coverage to pay off a

mortgage, they want permanent insurance coverage to most efficiently plan their estate.

What the “buy term and invest the difference” people aren’t telling you is that you needn’t think of permanent life insurance as an investment that is going to make you rich, think of it as a way to transfer the wealth you have already accumulated to the people that you care about.

Example two. You may have been told that Canadian mutual funds are the most expensive in the world. What they are trying to say is that costs matter, and if you can reduce your investment expenses that leaves a bigger piece of the pie left for you.

That sounds good, but expensive compared to what? If we are talking about expense in absolute terms, mutual funds offer diversification and professional management. Can you replicate that at a comparable cost?

If we are talking about expensive relative to other countries, this is an apples and oranges comparison. Most funds in Canada have an all-inclusive price. Most funds outside of Canada have mutual fund fees plus additional costs. Once you add those additional costs back in the prices are comparable.

In my experience people who perpetuate the legend that Canada has the highest cost mutual funds in the world do so because they have a self-serving agenda.

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What the “mutual funds are expensive in Canada” people aren’t telling you is that when you do a proper comparison Canadian mutual fund fees are not that different.

Example three. You may have been told that a firm has access to something special; a star portfolio manager, or proprietary research, or a trading algorithm, or some kind of secret sauce that makes their products better than everyone else.

What they are trying to say is that you should buy their stuff.

That sounds good, but what they aren’t telling you is that nobody has a monopoly on good products. Financial services are highly competitive, and usually any difference between the top candidates is slight.

In my experience, you have a far greater chance of reaching your objectives if you focus on the things that you can control, one of the main ones being making financial decisions that are consistent with your objectives. It may be boring, but it works.

What the “our products are best” people aren’t telling you is picking the optimal product actually has a smaller impact on your results than you might think. Things like asset allocation and investor behaviour account for more than 90% of your results, and things like stock selection and market timing account for the remainder. Paradoxically, stock selection and market timing get 90% of the attention, despite their modest contribution to real world results.

So what’s the point of all this? The point is that there is more to financial planning than just a catchy marketing slogan. Indeed, slogans are often more about marketing than they are about financial planning.

Just some of the things that they don't tell you...

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