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How clients can bridge the investing ‘action gap’

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Mind the gap. That’s the “action gap” between what Canadians are saving for retirement and what is needed to invest for the new reality of retirement – one that could last 20 or 30 years.

According to a recent RBC Financial Independence in Retirement Poll, 46 per cent of Canadians 55 and older reported that they were behind where they expected to be with their retirement savings.

Just like in those TV ads with people using ribbons to illustrate the difference between what they thought they needed and what they actually need, our ribbons come up short. Many of us may run out of money at our most vulnerable stage now that we’re living longer than past generations.

But even when people understand they need to take action to boost retirement savings and close the gap, they may fail to possess the knowledge or the will to do so. Plus, studies show that many of us don’t like to talk about money, even with our spouses, adding to the delay.

Typically, a boomer’s action gap might look like this DIY investor who needs some direction to get moving on her investments. Currently, she’s not sure what to do with about $100,000 sitting in her RRSP. After some large bonds came due several months ago, she still hasn’t gotten around to investing the cash.

Since Donald Trump was elected as president of the United States, she's been waiting for the market to drop so that buying opportunities might present themselves. She feels she really should be doing dollar-cost averaging – investing small sums of money each month – but finds it's hard to get motivated.

We asked two investing experts for their advice on how to close the action gap.

Adrian Mastracci, a fee-only senior portfolio manager at Lycos Asset Management Inc. in Vancouver, says the lack of an investment game plan is the biggest reason why people fail at retirement planning or at managing their portfolio.

"When most people go to see an advisor or salesperson, their first question is, 'What's good to invest in?'" Mr. Mastracci says.

"So, you get a bunch of names but there's no road map, no plan at all. It's like building a house before you have a blueprint. You don't buy the lumber before you know what you're building, but that's exactly what many people are doing on the financial side."

His approach to turn the action gap into an action plan starts with three Ds: Dream a little, draft a game plan, do the investing – in that order.

"If this DIY investor came to see me, I'd ask, what's your dream, what kind of income do you want and when should it start?" Mr. Mastracci says.

"I'm looking to come up with a custom-designed game plan but I want them to figure out what they have to do. The next thing is to prepare realistic retirement projections based on their goals. Most people really don't know how much they need to save for retirement. Over the past five years, only one person has ever come into my office with a retirement projection in hand."

Investment selection comes dead last. Mr. Mastracci asks lots of questions that help him determine what kind of investor the person is, whether it's someone conservative who's risk adverse or someone aggressive, who wants more risk.

"I'm really making a character assessment of them that determines how I'm going to guide them for investments," Mr. Mastracci says. "Once we get going, we know what kind of mix we need to have in terms of assets. In my case, it's always a mix. The most conservative is 20 per cent in stocks and the rest in mixed income and the most exciting is 80 per cent stock. Most people heading into retirement are okay with 50/50 – half in stock-type things and half in bonds. You balance between those two."

Saving capacity is another key. Mr. Mastracci says that when people reach their 50s, they're typically at the highest salary they'll get, so theoretically, that's the time when they can save the most, plus they've probably repaid most of their debts.

"Have a simple game plan that works for you," Mr. Mastracci advises. "It doesn't have to be complicated, but somebody has to be able to put it into action. Being DIY isn't bad; it fits a lot of people. But if you look at what you're doing and it's not working, then consider that maybe there's a better way. Seek independent advice and if you don't like the advice from the first advisor, get a second opinion."

Edward Kholodenko, president and chief executive officer of Questrade Financial Group Inc., an online investing service in Toronto, believes that in order to achieve a certain goal, you have to take the necessary steps. He's concerned that many Canadians aren't doing what they need to do for retirement, but understands why we tend to drag our collective feet.

"I think it's human nature in general," Mr. Kholodenko says. "A lot of people don't like to do things that are slightly painful. Taking money from your monthly budget and socking it away somewhere means you probably have to tighten somewhere else. Most people don't like to do that."

While Questrade offers self-directed investing, they also offer online managed investing with Portfolio IQ, a hybrid service that Mr. Kholodenko feels is a perfect match for our floundering DIY investor to keep her costs low while getting the returns she needs. He recommends it as a easy solution for anyone who realizes they need to do something, but don't know exactly know what.

"This person seems to be very busy with her life, so doesn't have time to invest in doing the research to understand what it is that she'd really like to invest in," says Mr. Kholodenko. "We've got a professionally managed advice product that's kind of like a mutual fund except it's made up of all low-cost ETFs so the costs are much lower than your average mutual fund.

"You're saving a lot on the fees because there are no trailer fees attached with it. Trailer fees are usually embedded in the cost of these mutual funds and can eat into as much as 30 per cent or more of a person's retirement. That really compounds over time."

To join, you'd go online and answer a series of questions to determine your risk tolerance and investment objectives, explains Mr. Kholodenko. Based on the answers, it would put the investor into a portfolio of low-cost ETFs that are commensurate with their risk profile.

"The other option for your DIY investor is to get motivated to do her own research and put in the time," says Mr. Kholodenko. "We have that service as well where you figure out what investments you want to make – whether to invest in ETFs or individual stocks and how long you want to hold those for. Many people are interested in doing that and having complete control over their finances, but it takes a lot more effort."