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Statements Now Online

For our clients' convenience and to save a few trees, clients can now access their account statements and previous 90 days' transactions on line. **We will no longer be mailing quarterly account statements.** Industry regulations require that all dealers mail clients an annual statement with all transactions for the year. **Clients will still receive this annual statement, sent directly from Equity Associates.** For online access, clients can register through our new website at www.lewkowitzfinancial.com by clicking on the "Login" tab and following the instructions. We will email back with a Login ID and a temporary password for each client.

Why Diversify?

You hear it all the time: Diversify your portfolio to reduce risk. What does that really mean? And how do you do it properly? Warren Buffett, CEO of Berkshire Hathaway and the free world's second wealthiest person, has said that diversification is your protection from ignorance. In other words, if you don't know what you're doing (i.e. don't really know the companies your investing in), then just spreading your investment dollars around will reduce your risk. It will not improve your returns. Typically the top fund managers used at Lewkowitz Financial hold relatively concentrated portfolios of companies they know very well. Our fund managers don't buy stocks—they buy businesses. That's a very different way of looking at it! We suggest our clients even eliminate the word "stocks" from their vocabulary and replace it with "businesses" because that's what stocks are, but the perception is very different. "Stocks", to many, sounds risky, yet the idea of owning a successful business is inherently appealing. Then owning a number of world-class, proven successful businesses should be even more attractive. Over diversifying can actually reduce returns—something AIC Chairman, Michael Lee-Chin refers to as di-***worse***-ification.

Having said that, proper diversification blends different management styles such as growth and value (more on that in a future newsletter), market capitalization (small, medium, and large companies), industry sectors, and geographic allocation. Non-correlating assets reduce overall risk. In other words, we want some investments to "zig" while others "zag" so we take the smoother path through the middle. Reducing volatility helps reduce the emotional roller-coaster effect so we can stay for the whole ride! For this reason we employ pension-style managed portfolios, which, until only recently, were only accessible to ultra-high net worth clients with account minimums of five, ten, or even 20 million dollars.

MERs and Why Mouse Traps Work

The topic of Management Expense Ratios is one that is often good fodder for financial pornographers. Now I guess there are two things that warrant explaining. First of all management expense ratios are the total of a mutual funds management fees plus any other expenses charged to the fund, expressed as a percentage of the NAVPS (Net Asset Value Per Share). So a portfolio manager may charge 2.00% to manage the fund and incur expenses for things such as brokerage fees, taxes, investor services, and interest expenses of another 0.35% for a total MER of 2.35%.

Secondly, financial pornographers are the tabloid

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news-makers that create attention-grabbing headlines to sell their newspapers or magazines by distracting us from the big picture and what is really important. Most prevalent is the focus on the daily gyrations of the market that lead to speculation about the long-term health of the economy. Does that really effect the bank that is consistently raking in billions of dollars in profits? Or the pharmaceutical company that holds 20-year patents on life-saving drugs millions of people depend upon, and is still developing new ones? Financial pornographers' (I'll use "FPs" for short) intention is to take your long-term vision off the goal and focus on the minutia of the moment.

Mice, by way, have limited peripheral vision and therefore rely on sweeping head motions to assess their environment. By capturing a mouse's attention on the morsel of cheese, the mouse is oblivious to the surrounding peril!

It is often said by the FPs that most mutual funds do not consistently beat the index and therefore, rather than paying high MERs one should invest in index funds. The devil is in the word "consistently". Again the focus is on the minutia of the moment. No fund will outperform each day, week, and month. Does that matter if your investment time horizon is beyond next Thursday? The passive management of an index fund can be handled by a computer program, and so the management fees should be quite low. Buying an index fund is essentially buying all the stocks that make up the TSX index without regard for risk. You may recall that Nortel once made up virtually one-third of the Toronto index before its collapse!

Our fund managers treat every investment as if they were buying the whole business. This often involves a great deal of traveling, meeting with corporate executives, and rubbing shoulders with the employees of the businesses they consider buying. Flying around the world to do this kind of research costs money, but it is well spent if it results in the avoidance of an investment in a company that looks good on paper, but has deep-rooted problems threatening it's valuation. Or conversely, good value managers often seek out investment opportunities in companies that may look terrible on paper, but have tremendous potential where changes in management can make all the difference. This kind of research is not done by simply reading a financial report.

Returns on mutual funds are reported ***net*** of MERs. That is, 12% beats 11.5% regardless of the MER. Of course we don't like to see MERs get out of hand, but sometimes you do get what you pay for!

Recently a client reported having read some FP which stated one should never buy a fund with an MER greater than 2.4%. We looked at the best long-term performing fund in her portfolio. It had an MER of 2.65% (higher than the median in its group), an average annual compound return of 18% for the past 12 years (a full 6% better than second place in it's category) with below average volatility.

Our New Website!

We are pleased to announce the launch of the Lewkowitz Financial website. It is an evolving project, but we think it's quite good already. Please visit us at: **www.lewkowitzfinancial.com** and don't forget to bookmark the page as you'll want to come back to it often! We will post future events, educational articles, links to other useful, amusing, or quite possibly inspiring websites. You will be introduced to the whole Lewkowitz Financial team, our investment and business philosophy, how to find us, and over time, we will build an archive of newsletters, and other articles on tax and estate planning, investment management, risk management, life, disability, and critical illness insurance, lifestyle planning, and ideas on living a successful and rewarding retirement.