

# The Value of Advice,

## ADVICE AND RETIREMENT INCOME

Why financial advisors will never be replaced by robo-advisor technology.

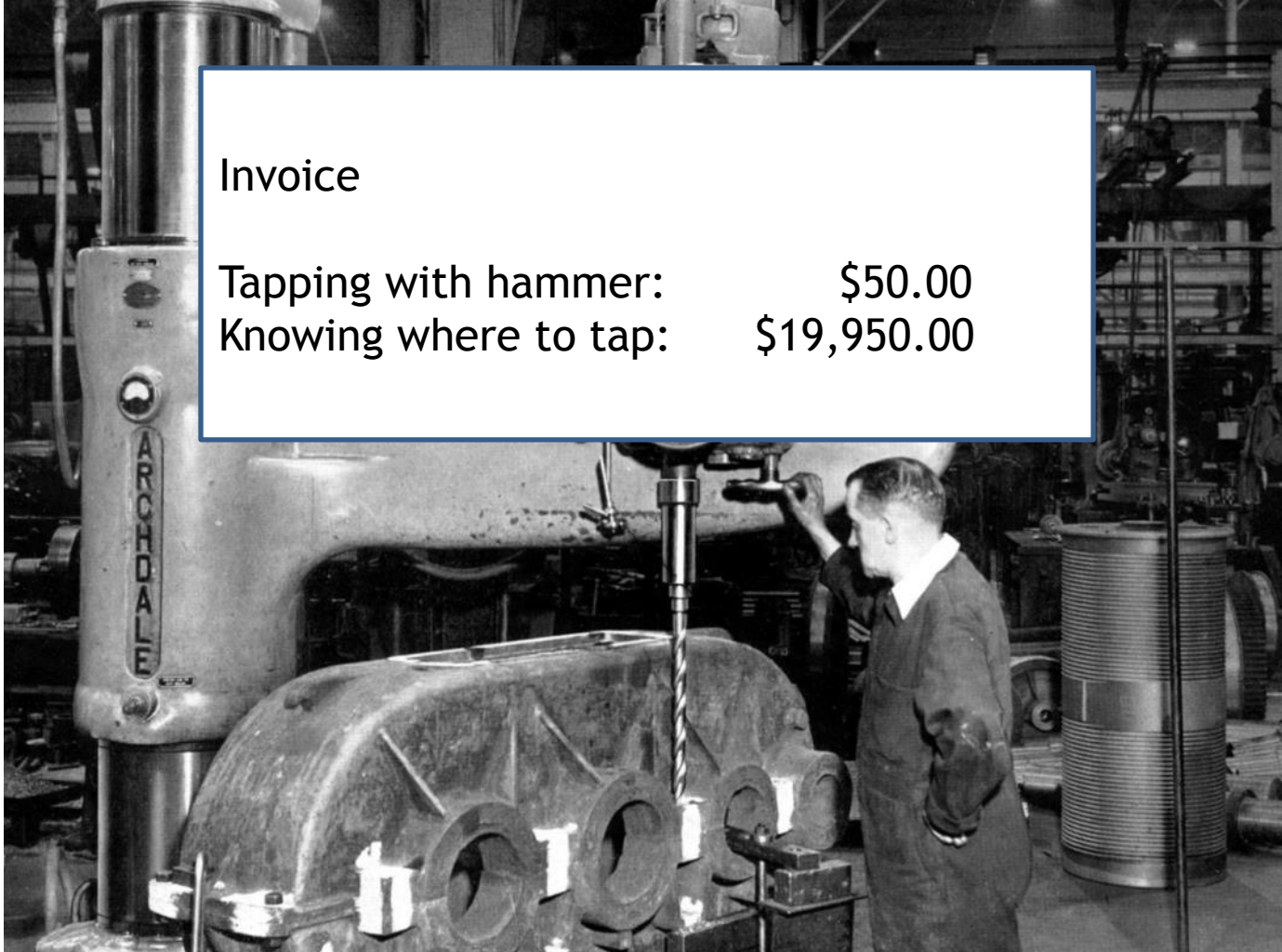
Dave Faulkner, CLU, CFP  
CEO Razor Logic Systems Inc.

@FaulknersRazor ~ @RazorPlan

# Disruptive Technology

## Invoice

Tapping with hammer:	\$50.00
Knowing where to tap:	\$19,950.00



# What is Value?

**Verb** *(action or state of being)*

**Estimate the monetary worth of something**

*“our average customer saves \$1,500 / year in fees”*

synonyms: evaluate, assess, estimate, appraise, price

**Noun** *(person, place, thing, idea or quality)*

**The regard that something is held to deserve**

*“your advice, guidance, and support is of great value to me”*

synonyms: worth, advantage, benefit, gain, profit, help, merit







# Why do Canadians pay the **highest** mutual fund fees in the world?

Retire up to 30% wealthier  
with Questrade Portfolio IQ

MANAGED INVESTING

It's time to ask **tough questions** about your money.





# FINANCIAL POST

## Know your T-Rex Score: It shows how much return you keep after fees



**BARRY CRITCHLEY** | January 30, 2017 | Last Updated: Jan 31 10:53 AM ET  
[More from Barry Critchley](#)



Toronto's financial district.

Peter J. Thompson/National Post

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For Larry Bates, a veteran of the world of investment banking, it represents a new direction, an opportunity to shine the spotlight on net return — or how much investors *actually* keep after all fees are paid.

Larry Bates, a veteran of the world of investment banking, spent about three decades in fixed income market in both Canada and London, is the developer of [wealthgame.ca](#) (an information-heavy website that's just gone live) and an author (The Wealth Game book is scheduled for release later this year.)

The T-Rex score, or an investor's *total return efficiency index*, is one of the big breakthroughs in his work. “Your T-Rex Score represents the percentage of your total investment gain you actually get to keep,” said Bates, arguing investors need to be aware of the impact fees have on a portfolio's overall return over different periods of time.

# Determine your T-Rex Score

The T-REX Calculator allows you to determine T-REX Scores for an endless range of scenarios. So start with any scenario you wish. Make adjustments. See how your T-REX Score changes. You may be very surprised!

YOU INVEST

100000

ANNUAL RETURN(%)

6.4

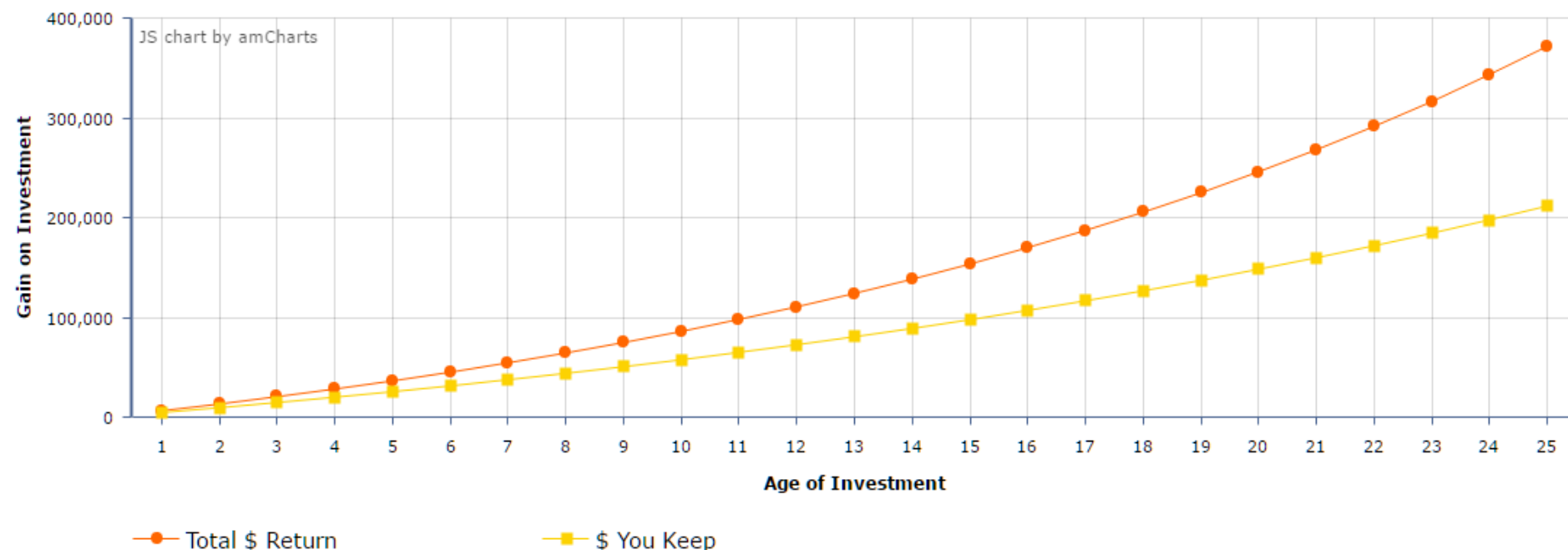
ANNUAL FEES(%)

1.75

TIME (YEARS)

25

UPDATE



**T-REX SCORE: 57%**

**\$371564**  
Total Gain

**\$160048**  
Lost in Fees

**\$211516**  
Gain You Keep

**\$311516**  
Total Value



A 6.4% return is better than a 4.6% return!



# Determine your T-Vex Score

The T-VEX Calculator allows you to determine T-VEX Scores for an endless range of vacation scenarios.

5 STAR RESORT

\$5,500

3 START RESORT

\$3,250

ANNUAL RETURN

6.4%

TIME (YEARS)

25



**T-VEX SCORE: 59%**

# Determine your T-Bex Score

The T-BEX Calculator allows you to determine T-BEX Scores for an endless range of beer drinking scenarios.

DRINKS AT THE BAR

**\$100/WEEK**

DRINKS AT HOME

**\$16/WEEK**

ANNUAL RETURN

**6.4%**

TIME (YEARS)

**25**



**T-BEX SCORE: 16%**

# Determine your T-Sex Score

The T-SEX Calculator allows you to determine T-SEX Scores for an endless range of sports car lease scenarios.

SPORTS CAR LEASE

**\$850**

MINI-VAN LEASE

**\$285**

ANNUAL RETURN

**6.4%**

TIME (YEARS)

**25**



**T-SEX SCORE: 34%**

Randy Cass, CEO, Nest Wealth tells BNN some of the factors you should consider before making the move to a robo-advisor. He a...

**BUSINESS NEWS NETWORK**

# YOUR MONEY MONTH

Wed, Feb 14, 2018 10:51 AM EST



randy cass | CEO | Nest Wealth | robo-advisor

## Your Money Month: What to consider when using a robo-advisor

Randy Cass, CEO, Nest Wealth tells BNN some of the factors you should consider before making the move to a robo-advisor. He also tells us why we are seeing an increase in the number of non-millennials using a robo-advisor.









YOUR  
**MONEY**  
MONTH

**SPECIAL COVERAGE**

**WHAT TO CONSIDER BEFORE MAKING  
THE SWITCH TO A ROBO-ADVISOR**



## **Detailed Calculation Methodology**

Our calculation uses the following data:

- The average mutual fund fee in Canada, is 2.35 percent according to Morningstar.
- According to Environics Analytics<sup>1</sup>, the average Canadian household has \$229,000 in liquid assets.

We use a projected future-working lifetime of 40 years with straight linear compounded returns. To produce a realistic estimate of the lifetime fee cost, we presume that the household investors have constant expense ratio equal to the average expense ratio for equity funds in Canada.

Our investors begin saving at age 25 and gradually increases savings until age 65.

The assumed starting balance in year 1 is \$10,000, and the assumed yearly contribution to a non-taxable account is \$5,800, with a presumed rate of return of 6.5 percent.



Assumed fees each year remain static at 2.35 percent (compounded annually, not making any assumptions for inflation).

Our investors save every year of their working lifetimes without interruption, and never withdraw or borrow from their accounts. Our average Canadian investors spend 40 years accumulating assets until they retire and they spend the remainder of their retirement withdrawing assets from their investment account.

Decumulation is \$22,000 per year, or 3.5% - whichever is greater.

Over the investment lifetime of these investors, their average balance of their accounts total \$229,000.

As a result, total investment fees paid over the course of the average Canadian household's life is \$323,654.50.

According to MoneySense.Ca, the average cost of raising a child to the age of 19 is \$243,660.

To Determine Average Costs for Canadians, we used the data from the latest (2014) survey of Household Spending provided by Statistics Canada.



# Robo-advisor - **VERB** vs. **NOUN** - Human-advisor







Robo-advisor ROI: 6.0%:  
Human-advisor ROI: 5.0%:

	Bill	Mary
Age:	50	50
Annual income:	\$100,000	\$100,000
RRSP Investment:	\$150,000	\$150,000
RRSP Contribution:	\$350/m	\$350/m
TFSA Investment:	\$35,000	\$35,000
TFSA Contribution:	\$2,000/y	\$2,000/y

	Joint
Home:	\$500,000
Mortgage:	\$185,000
Credit card debt:	\$10,000





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# Planning Software...Simplified.

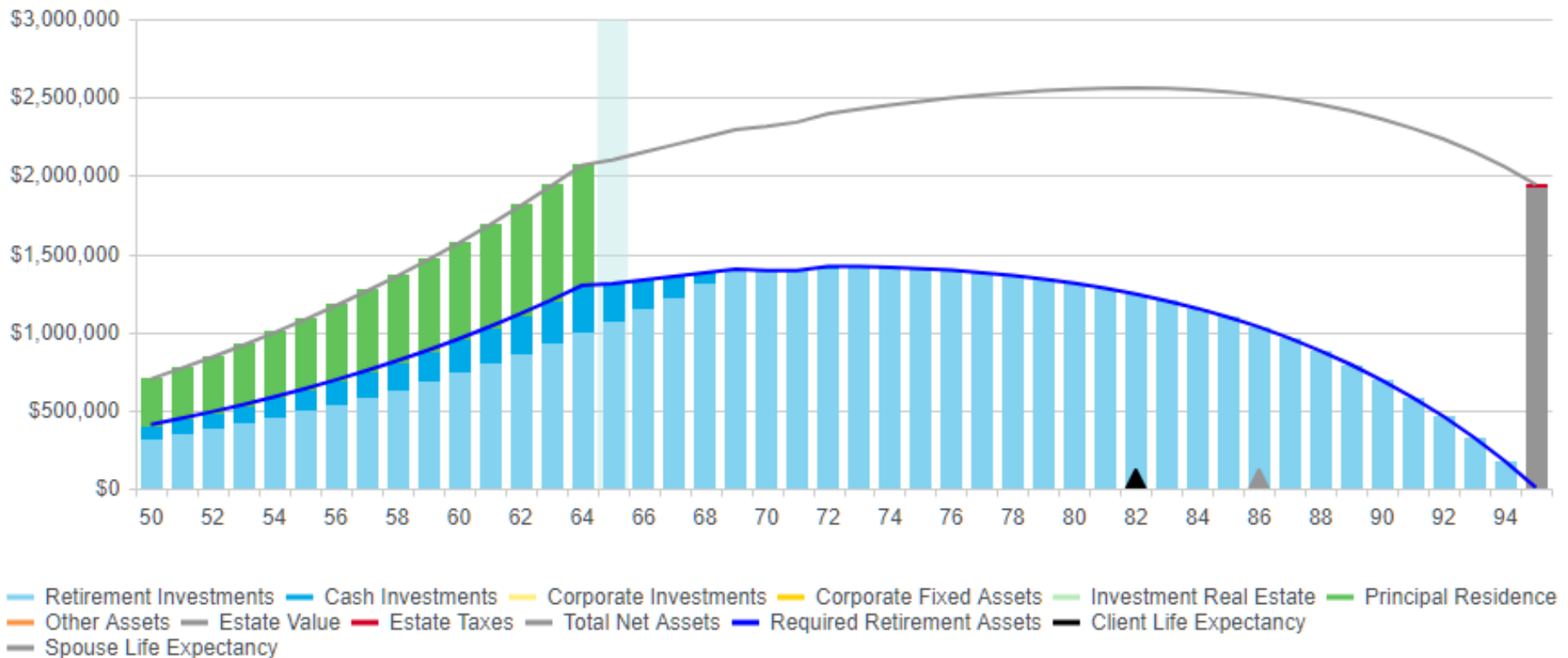
Get started with RazorPlan today and help your clients focus on what's important.

START MY FREE TRIAL



**ESTABLISH** THE ENGAGEMENT. **ANALYZE** THE SITUATION.  
**DELIVER** THE RESULTS.

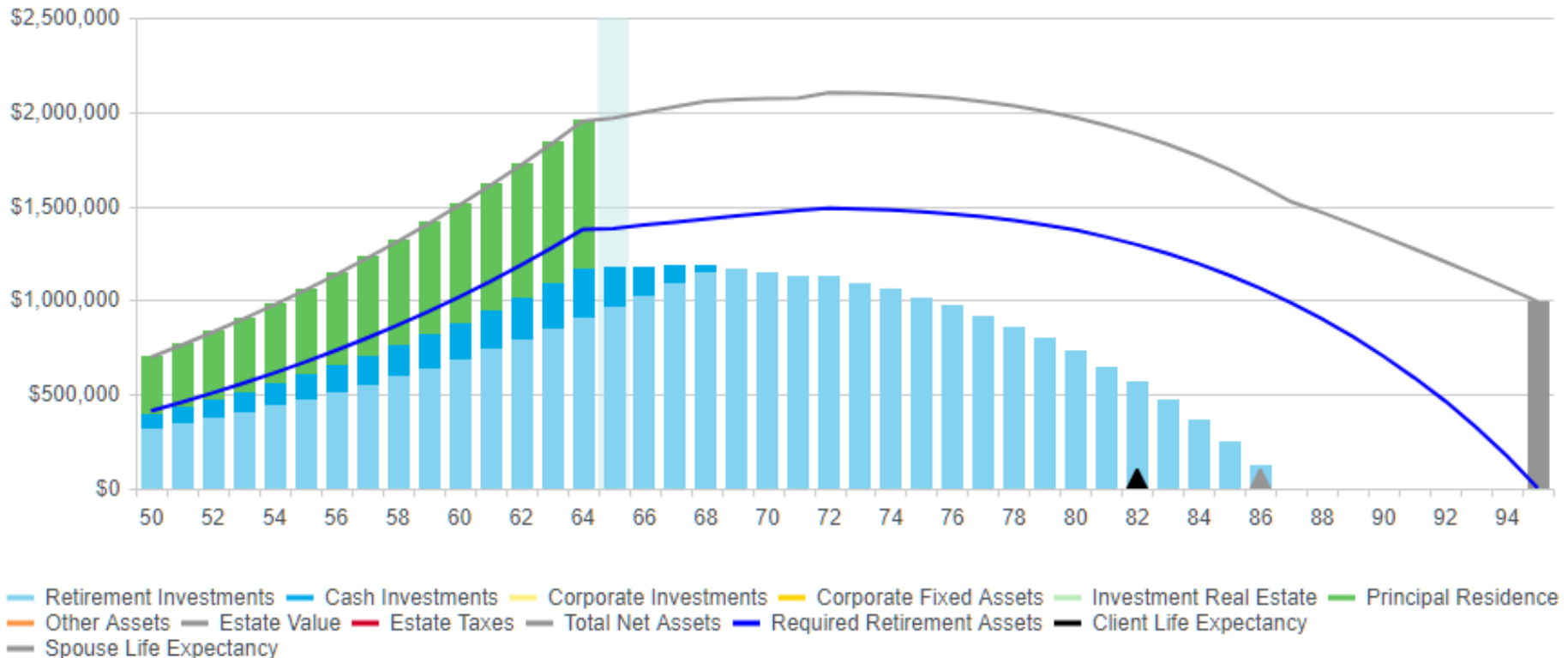




❖ \$6,797/month or \$81,564/year after-tax in today's dollars

	MANAGEMENT FEE	ESTIMATED TRADING FEES	MER OF UNDERLYING FUNDS	TOTAL ANNUAL COST
<b>Nest Wealth</b>	\$960	\$100	0.13%	<b>\$1,515.00</b>
<b>ModernAdvisor</b>	\$1,360	\$0	0.21%	<b>\$2,095.00</b>
<b>Wealthsimple</b>	\$1,400	\$0	0.26%	<b>\$2,309.30</b>
<b>Responsive</b>	\$1,750	\$0	0.16%	<b>\$2,310.00</b>
<b>Invisor</b>	\$1,650	\$0	0.22%	<b>\$2,420.00</b>
<b>Justwealth</b>	\$1,750	\$0	0.22%	<b>\$2,520.00</b>
<b>WealthBar</b>	\$1,670	\$0	0.35%	<b>\$2,895.00</b>
<b>BMO Smartfolio</b>	\$2,100	\$0	0.28%	<b>\$3,080.00</b>
<b>Questrade Portfolio IQ</b>	\$1,225	\$525	0.42%	<b>\$3,220.00</b>
<b>Tangerine</b>	\$0	\$0	1.07%	<b>\$3,745.00</b>
<b>Steadyhand</b>	\$3,885	\$0	0.00%	<b>\$3,885.00</b>
<b>Big Bank Funds</b>	\$0	\$0	2.14%	<b>\$7,504.00</b>

\$370,000 portfolio 75 basis points on average  
[autoinvest.ca](https://autoinvest.ca), Canadian online investment fee calculator



- ❖ \$6,797/month or \$81,564/year – after-tax in today's dollars
- ❖ \$116,000 less investment capital at age 65
- ❖ \$955,000 of lost after-tax income in retirement

**Option #1: Reduce Lifestyle**

Estimated amount you will need to reduce your retirement lifestyle by: \$6,800.00

Planned Retirement Lifestyle: \$81,600.00

Attainable Retirement Lifestyle: \$74,800.00

**Option #2: Work Longer**Estimated number of years you will need to continue working beyond your  
planned retirement age: 3

Planned Retirement Age: 65

Attainable Retirement Age: 68

**Option #3: Earn More Return**

Estimated increase to portfolio rate of return you will need to earn: 0.75 %

Portfolio Rate of Return: 6.00 %

Required Rate of Return: 6.75 %

**Option #4: Save More**

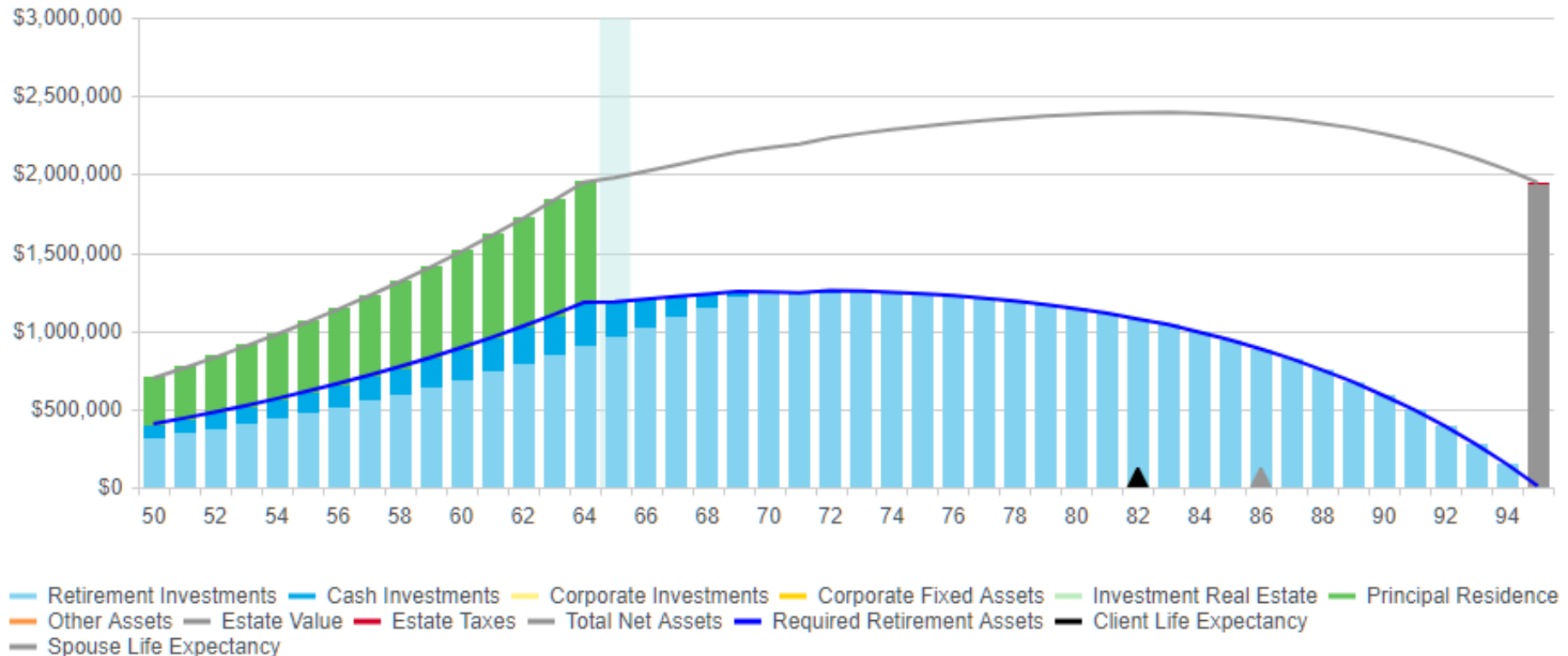
Estimated additional amount you will need to save each year: \$8,300.00

Projected Capital at Retirement: \$1,180,800.00

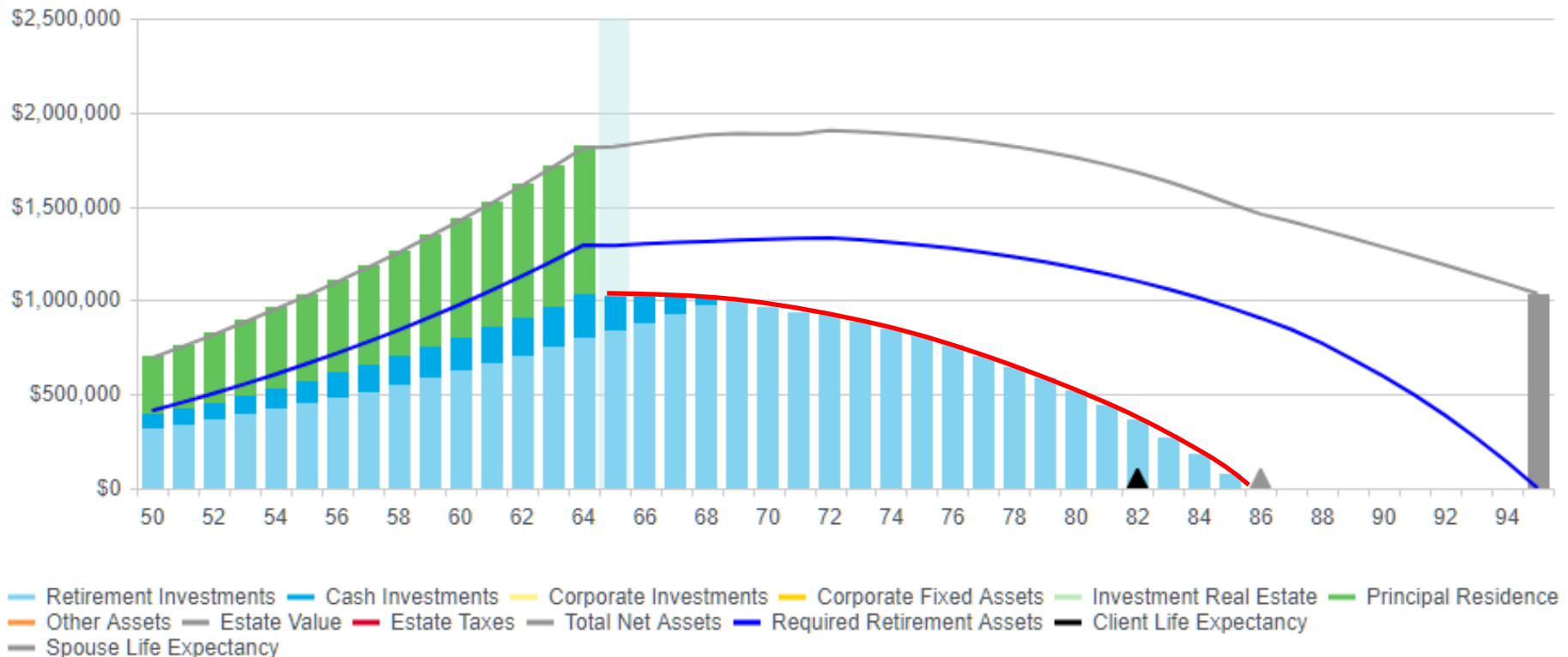
Required Capital at Retirement: \$1,374,400.00

**Fees do matter, \$194,000 worth!**

Current Value of Retirement Capital: \$370,000.00



- ❖ \$6,230/month or \$74,760/year – after-tax in today's dollars
- ❖ New base-line to compare the Value of Advice



- ❖ \$6,230/month or \$74,760/year – after-tax in today's dollars
- ❖ \$140,000 less investment capital at age 65
- ❖ \$912,000 of lost after-tax income in retirement



**Option #1: Reduce Lifestyle**

Estimated amount you will need to reduce your retirement lifestyle by: \$7,700.00

Planned Retirement Lifestyle: \$74,800.00

Attainable Retirement Lifestyle: \$67,100.00

**Option #2: Work Longer**Estimated number of years you will need to continue working beyond your  
planned retirement age: 4

Planned Retirement Age: 65

Attainable Retirement Age: 69

**Option #3: Earn More Return**

Estimated increase to portfolio rate of return you will need to earn: 1.00 %

Portfolio Rate of Return: 5.00 %

Required Rate of Return: 6.00 %

**Option #4: Save More**

Estimated additional amount you will need to save each year: \$11,400.00

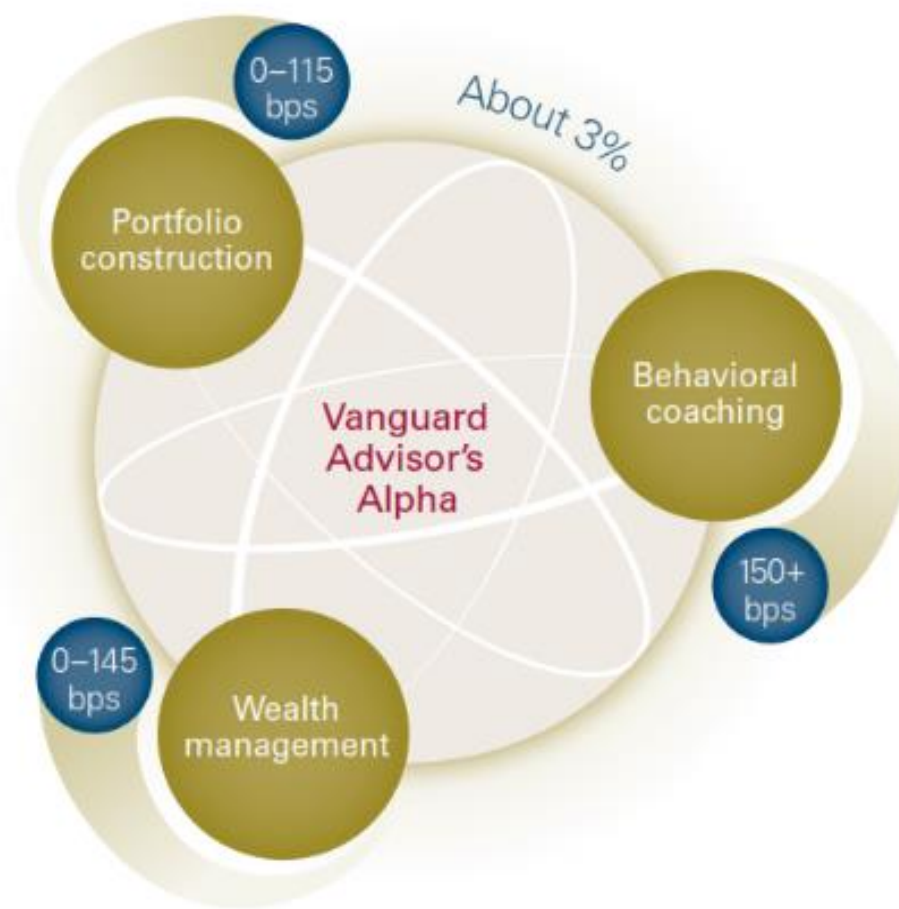
Projected Capital at Retirement: \$1,040,900.00

Required Capital at Retirement: \$1,293,000.00

**Fees do matter, \$253,000 worth!**

Current Value of Retirement Capital: \$370,000.00

# Vanguard Advisor's Alpha



[advisors.vanguard.com](https://advisors.vanguard.com)

# Vanguard Advisor's Alpha

## Using Vanguard Advisor's Alpha to quantify your value

### Vanguard Advisor's Alpha strategy

Potential value relative to  
"average" client experience  
(in basis points of return)

#### Portfolio construction

Suitable asset allocation using broadly diversified mutual funds/ETFs	>0
Cost-effective implementation (expense ratios)	40
Asset location	0-75
Total-return versus income investing	>0

#### Wealth management

Rebalancing	35
Spending strategy (withdrawal order)	0-110

#### Behavioral coaching

Advisor guidance	150
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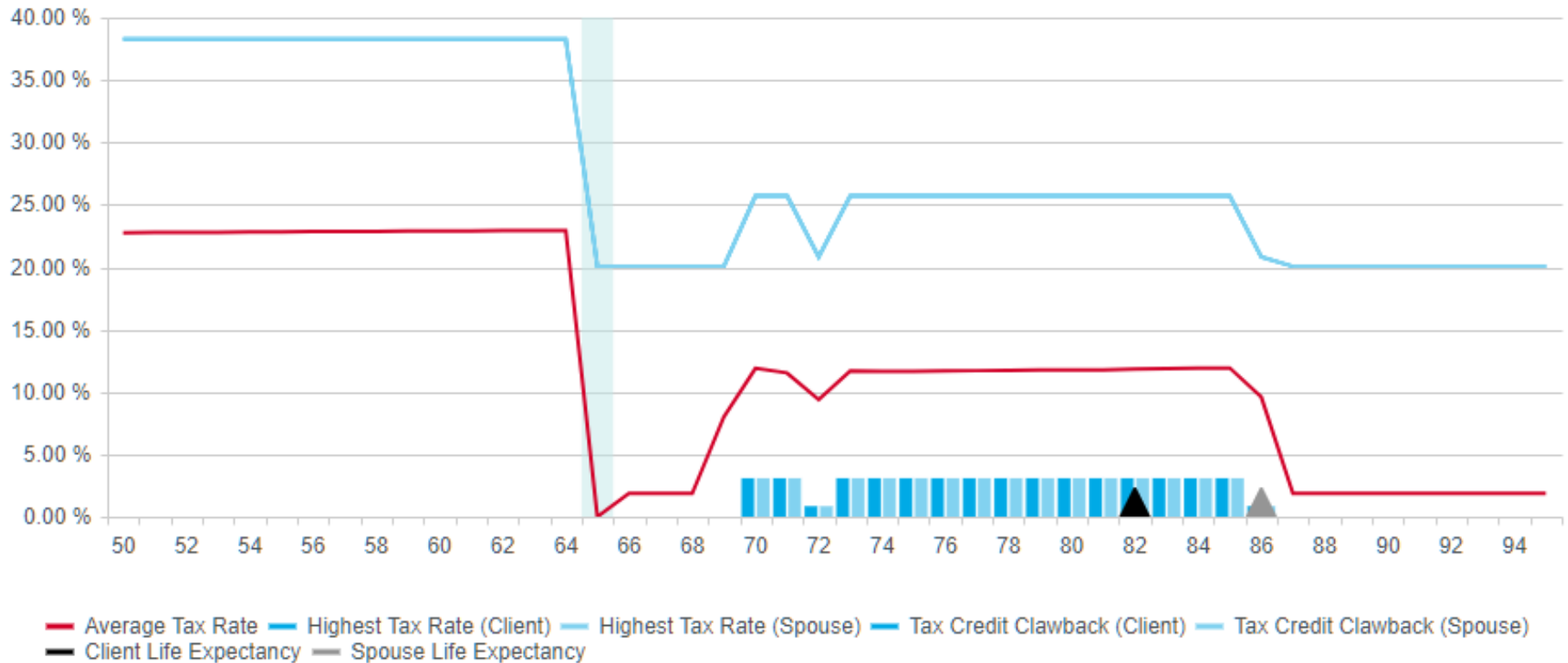
### Potential value added

"About 3%"

Source: Francis M. Kinniry Jr., Colleen M. Jaconetti, Michael A. DiJoseph, Yan Zilbering, and Donald G. Bennyhoff, 2016. *Putting a value on your value: Quantifying Vanguard Advisor's Alpha*. Valley Forge, Pa.: The Vanguard Group.

Notes: For "Potential value added," we did not sum the values because there can be interactions between the strategies. bps = basis points.

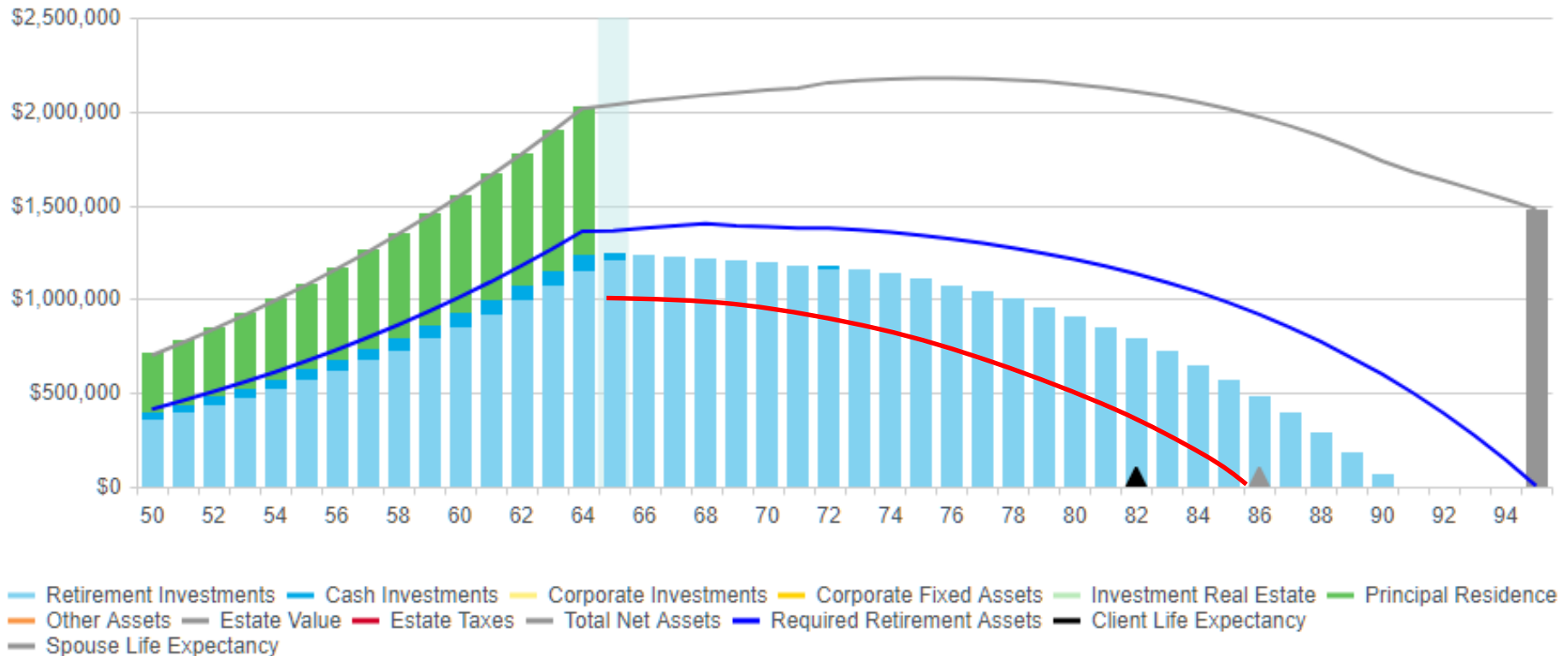
[advisors.vanguard.com](https://advisors.vanguard.com)



✓ MTRs suggests that RRSPs may offer more value than TFSA.

# The Human Advisor's Advice

1. Allocate \$14,000 from each TFSA and contribute it to RRSP and use the \$10,000 tax refund to pay off high-interest credit card.
2. Contribute \$500 budgeted each month for credit card payments to RRSP along with the \$2,000 they each have been contributing to TFSA annually.
3. Increase savings each year by inflation.

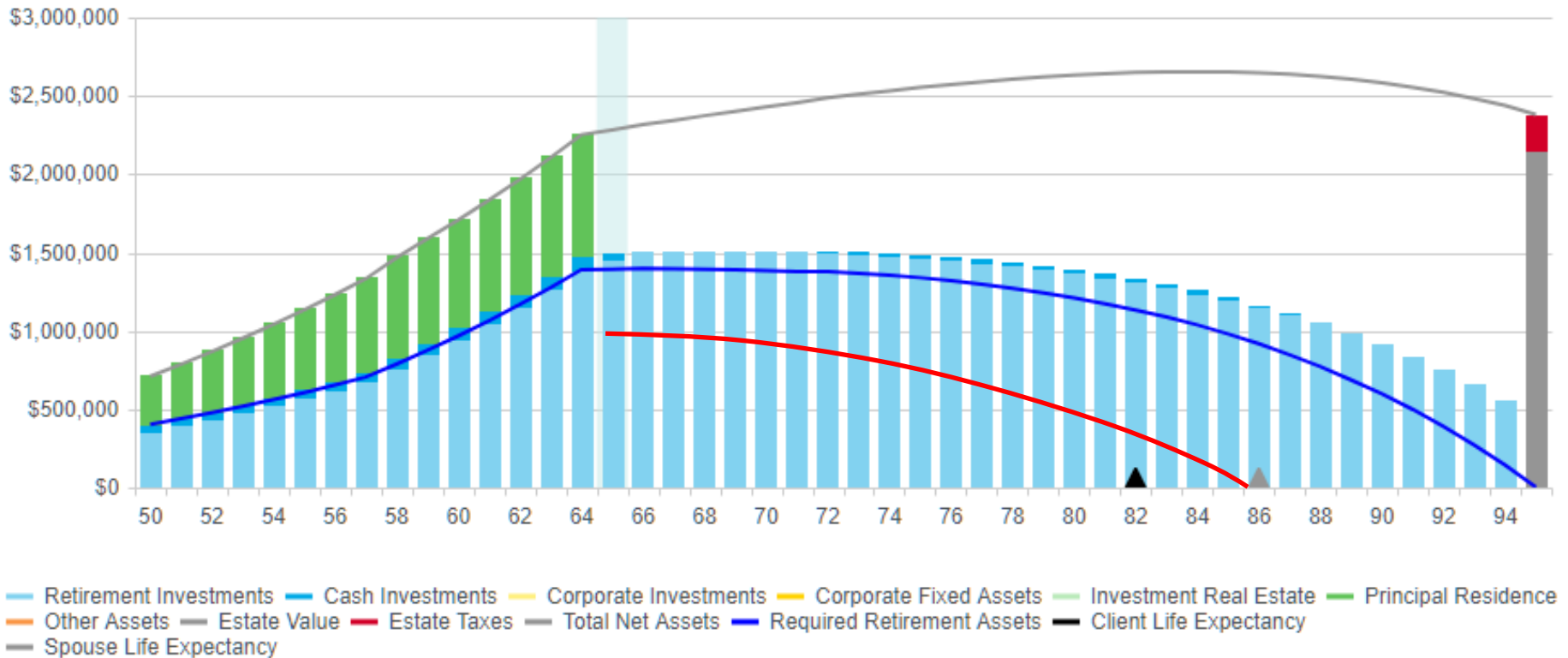


- ✓ Recommendation 1, 2 & 3 adds \$205,000 in retirement savings, 5 more years of income!



# The Human Advisor's Advice

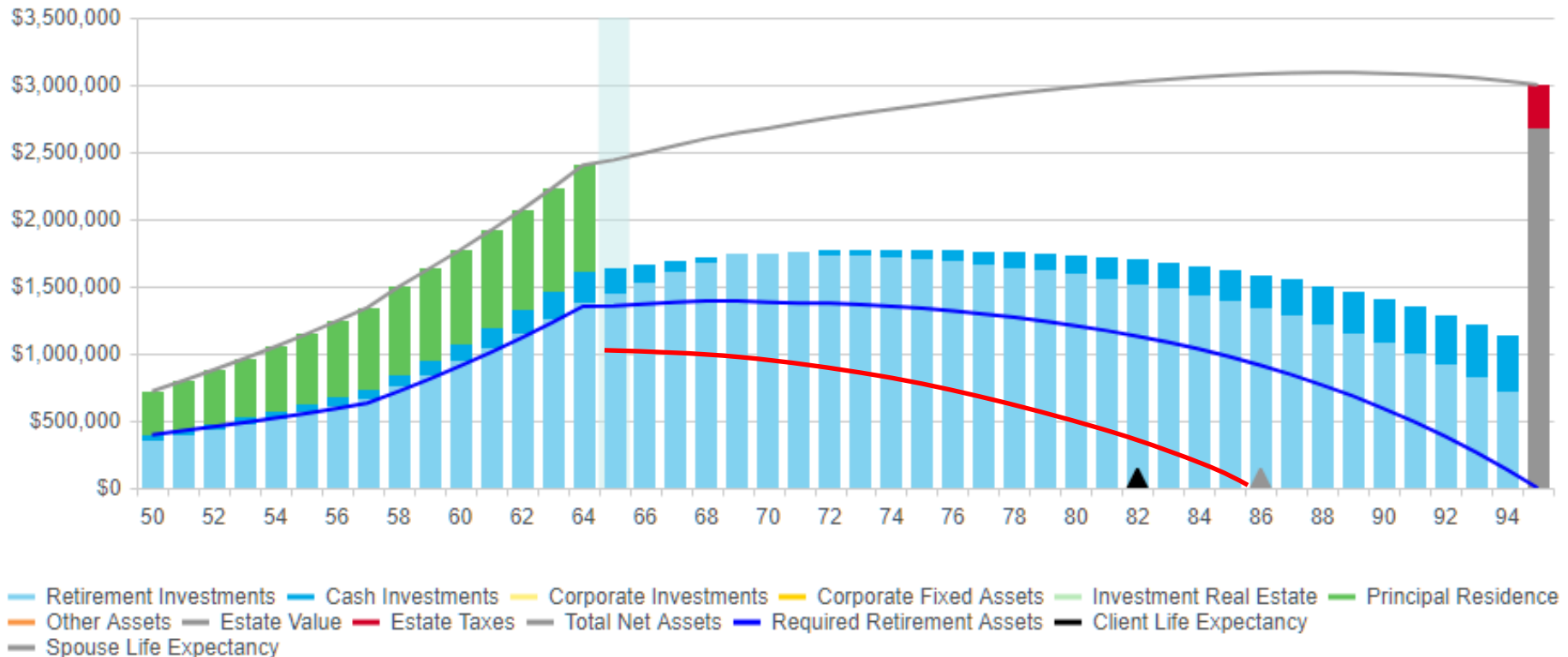
1. Allocate \$14,000 from each TFSA and contribute it to RRSP and use the \$10,000 tax refund to pay off high-interest credit card.
2. Contribute \$500 budgeted each month for credit card payments to RRSP along with the \$2,000 they each have been contributing to TFSA annually.
3. Increase savings each year by inflation.
4. Use \$6,000 annual RRSP tax refund to increase mortgage payments.
5. When the mortgage is paid off in 8 years, allocate the mortgage payment to RRSP contributions.



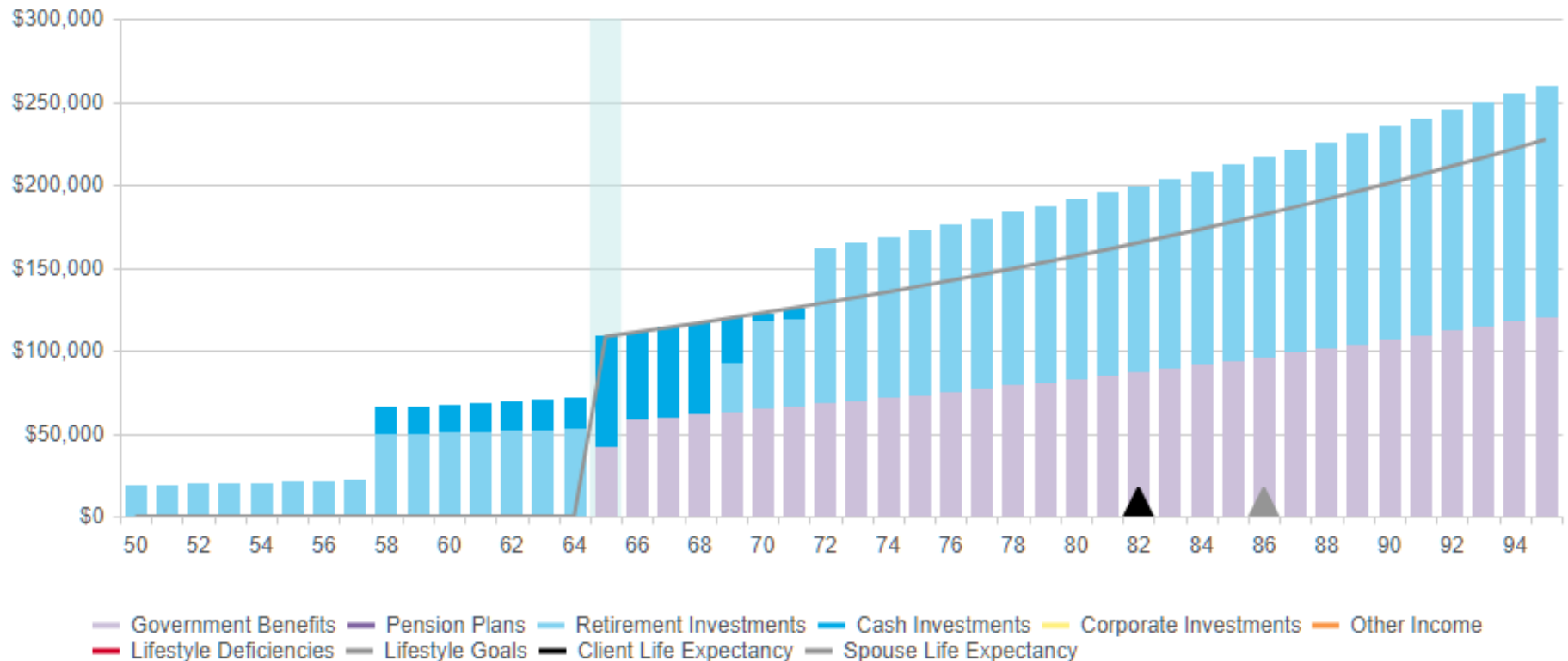
- ✓ Recommendations 4 & 5 adds \$236,000, surpassing robo-advisor.
- ✓ At life expectancy: Human = \$442,000 / Robo = ZERO!

# The Human Advisor's Advice

1. Allocate \$14,000 from each TFSA and contribute it to RRSP and use the \$10,000 tax refund to pay off high-interest credit card.
2. Contribute \$500 budgeted each month for credit card payments to RRSP along with the \$2,000 they each have been contributing to TFSA annually.
3. Increase savings each year by inflation.
4. Use \$6,000 annual RRSP tax refund to increase mortgage payments.
5. When the mortgage is paid off in 8 years, allocate the mortgage payment to RRSP contributions.
6. In 8 years when the mortgage is paid off, use RRSP tax refund to make TFSA contributions.



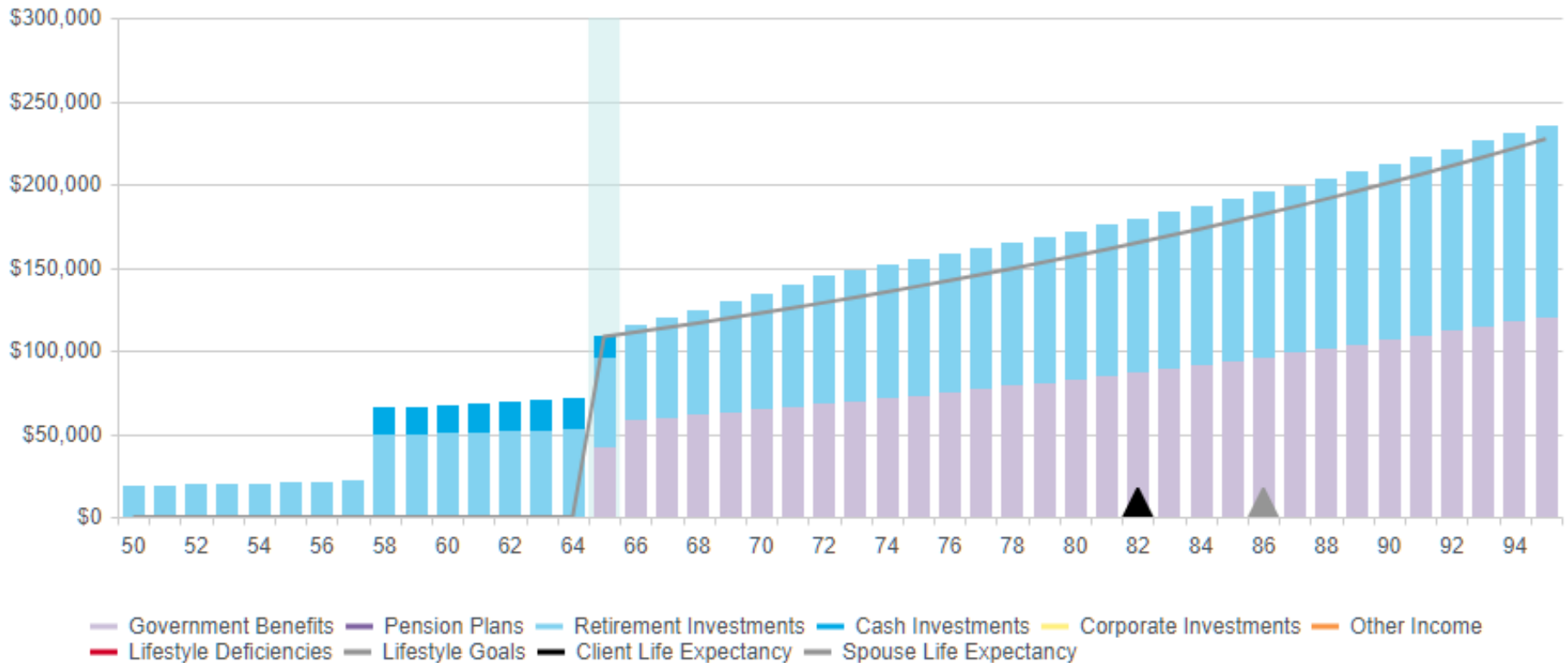
- ✓ Recommendation 6 adds another \$141,000 at retirement
- ✓ At life expectancy: Human = \$1,053,000 / Robo = ZERO!



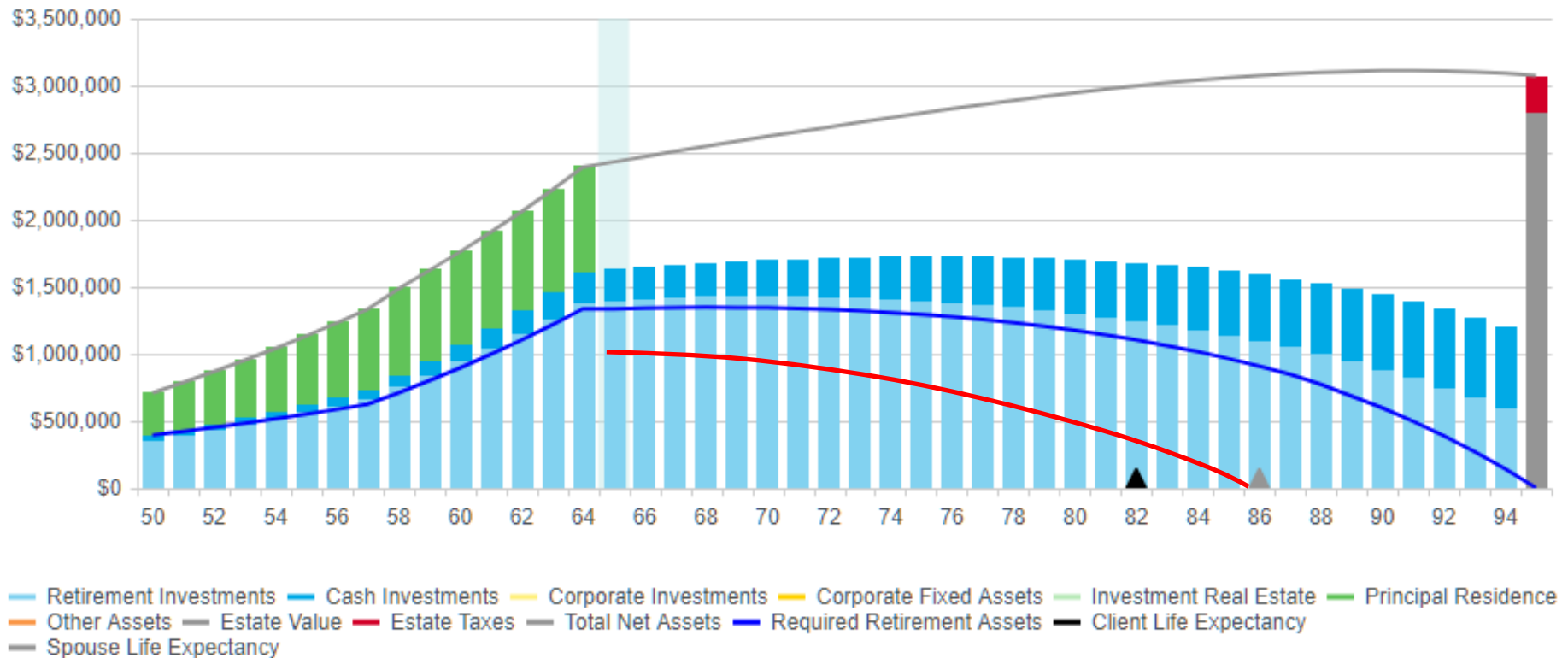
✓ Cash Flow suggests other opportunities with the RRIF payments

# The Human Advisor's Advice

1. Allocate \$14,000 from each TFSA and contribute it to RRSP and use the \$10,000 tax refund to pay off high-interest credit card.
2. Contribute \$500 budgeted each month for credit card payments to RRSP along with the \$2,000 they each have been contributing to TFSA annually.
3. Increase savings each year by inflation.
4. Use \$6,000 annual RRSP tax refund to increase mortgage payments.
5. When the mortgage is paid off in 8 years, allocate the mortgage payment to RRSP contributions.
6. In 8 years when the mortgage is paid off, use RRSP tax refund to make TFSA contributions.
7. Convert RRSP to RRIF at retirement to utilize lower tax brackets.



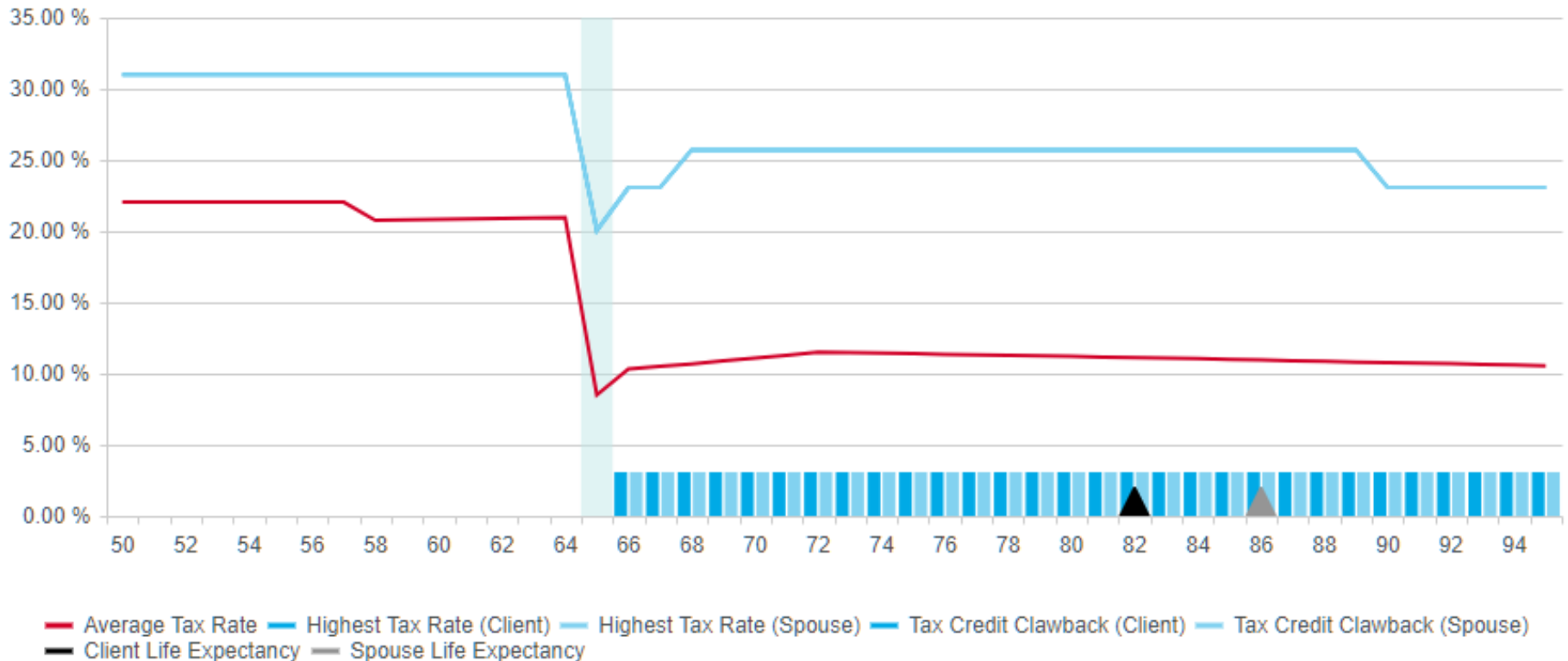
- ✓ Starting RRIF payments at retirement, reduces the amount of excess income in later years



✓ Final recommendation...

✓ Life expectancy: Human = \$1,136,000 / Robo = ZERO!





✓ No OAS clawback, some Federal & Provincial Age Credit clawback.

**Option #1: Increase Lifestyle**

Estimated amount you can increase your retirement lifestyle by: \$7,000.00

**Your Value of Advice = \$7,000 Income**

Planned Retirement Lifestyle: \$74,800.00

Attainable Retirement Lifestyle: \$81,800.00

**Option #2: Retire Sooner**

Estimated number of years you can retire before your planned retirement age: 1

**Your Value of Advice = +1 year of retirement**

Planned Retirement Age: 65

Attainable Retirement Age: 64

**Option #3: Take Less Risk**

Estimated amount you can reduce portfolio rate of return: 0.82 %

**Your Value of Advice = 1.82% ROI**

Portfolio Rate of Return: 5.00 %

Required Rate of Return: 4.18 %

**Option #4: Asset Allocation**

Based on the assumptions, you are projected to have sufficient retirement capital.

**Your Value of Advice = \$288,000 Capital**

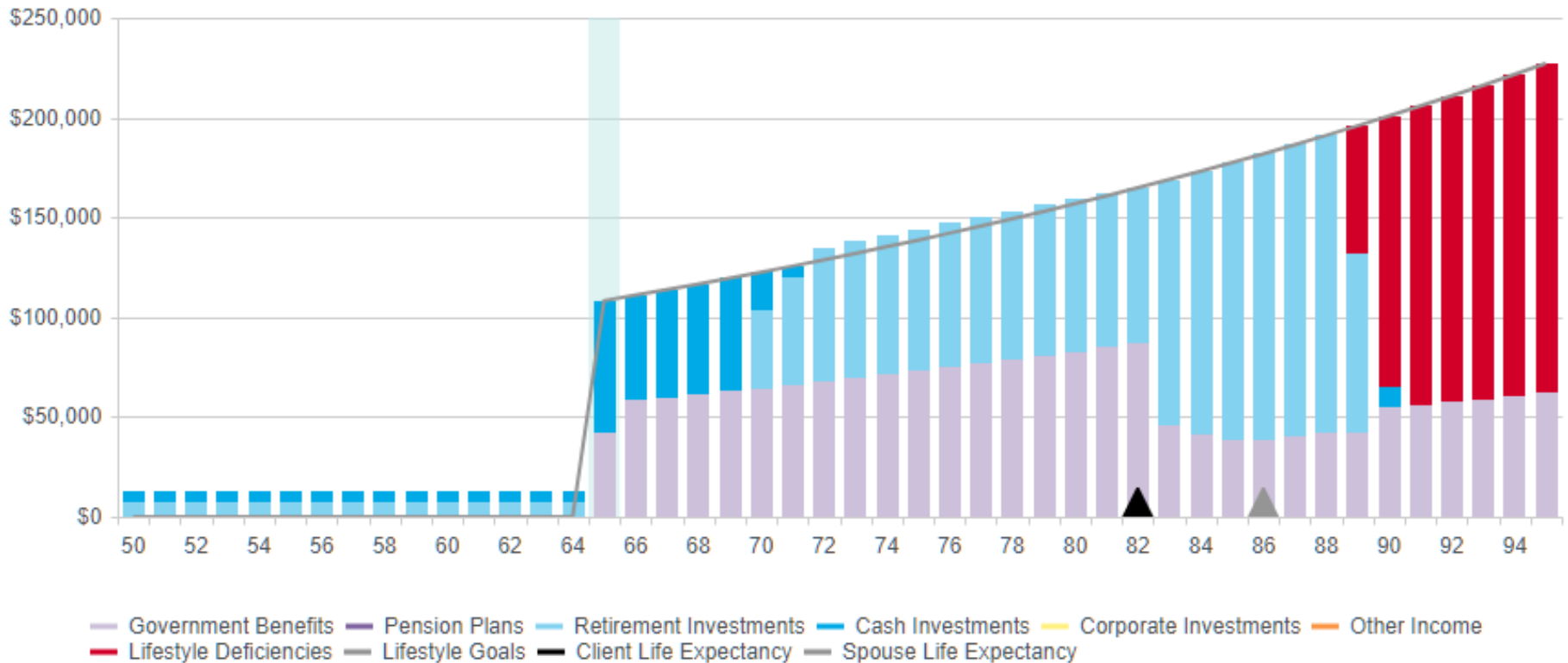
Projected Capital at Retirement: \$1,623,800.00

Required Capital at Retirement: \$1,335,200.00

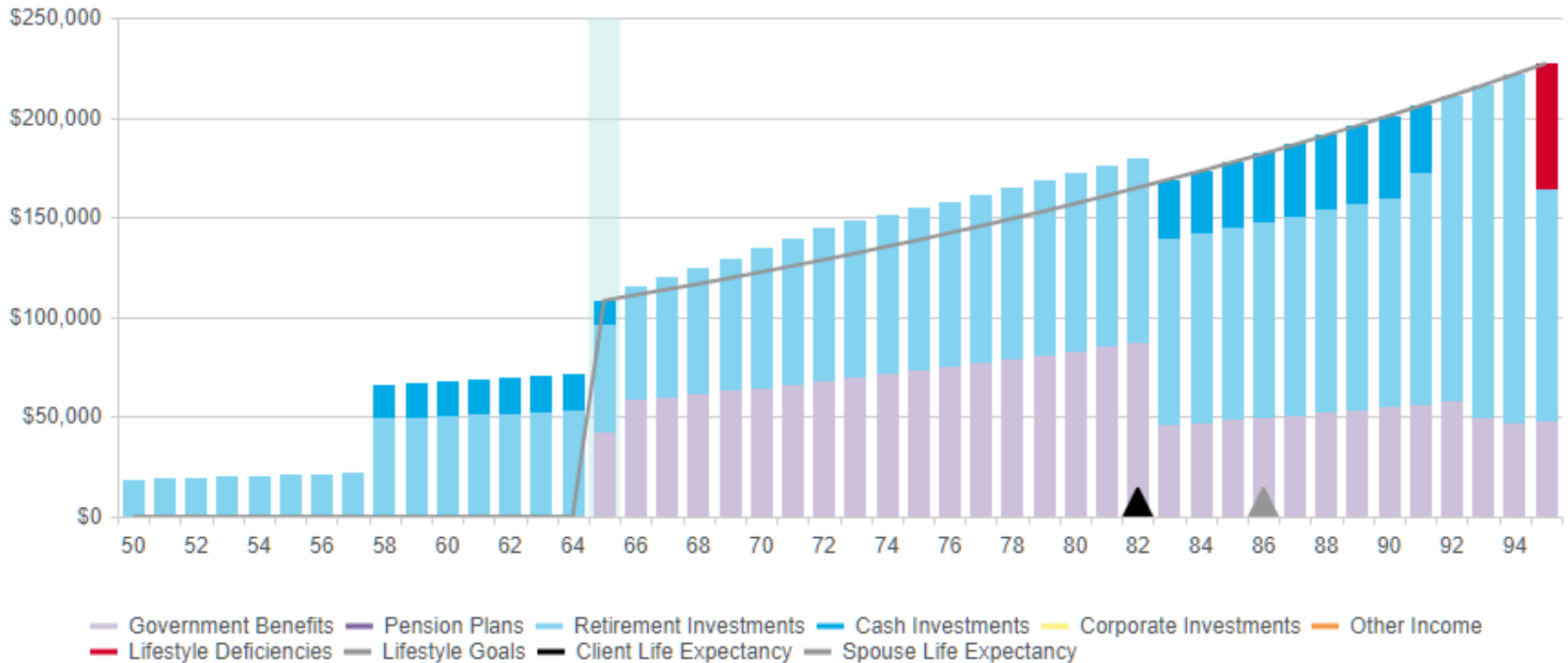
Current value of Retirement Capital: \$370,000.00

	Human-Advisor	Robo-advisor	Change
Retirement Age	65	65	0
Portfolio Rate of Return	5.00 %	6.00 %	-1.00 %
Liquid Assets at Retirement	\$1,623,758.46	\$1,180,753.37	\$443,005.09
<b>Client Age 85</b>			
Net Worth	\$3,058,408.34	\$2,379,241.99	\$679,166.35
Deferred Taxes	\$574,416.11	\$468,171.21	\$106,244.90
Estate Net Worth	\$2,483,992.23	\$1,911,070.78	\$572,921.44
<b>Spouse Age 95</b>			
Net Worth	\$3,074,152.11	\$1,946,035.24	\$1,128,116.87
Deferred Taxes	\$258,470.80	\$4,239.66	\$254,231.14
Estate Net Worth	\$2,815,681.31	\$1,941,795.58	\$873,885.73

	Human-Advisor	Total Return	Change
Retirement Age	65	65	0
Portfolio Rate of Return	5.00 %	6.75 %	-1.75 %
Liquid Assets at Retirement	\$1,623,758.46	\$1,297,612.06	\$326,146.41
<b>Client Age 85</b>			
Net Worth	\$2,634,353.11	\$2,534,246.59	\$100,106.52
Deferred Taxes	\$574,416.11	\$545,363.50	\$29,052.61
Estate Net Worth	\$2,059,937.00	\$1,988,883.09	\$71,053.91
<b>Spouse Age 95</b>			
Net Worth	\$1,986,183.11	\$1,942,081.30	\$44,101.82
Deferred Taxes	\$24,233.30	\$2,270.60	\$21,962.70
Estate Net Worth	\$1,961,949.81	\$1,939,810.70	\$22,139.11



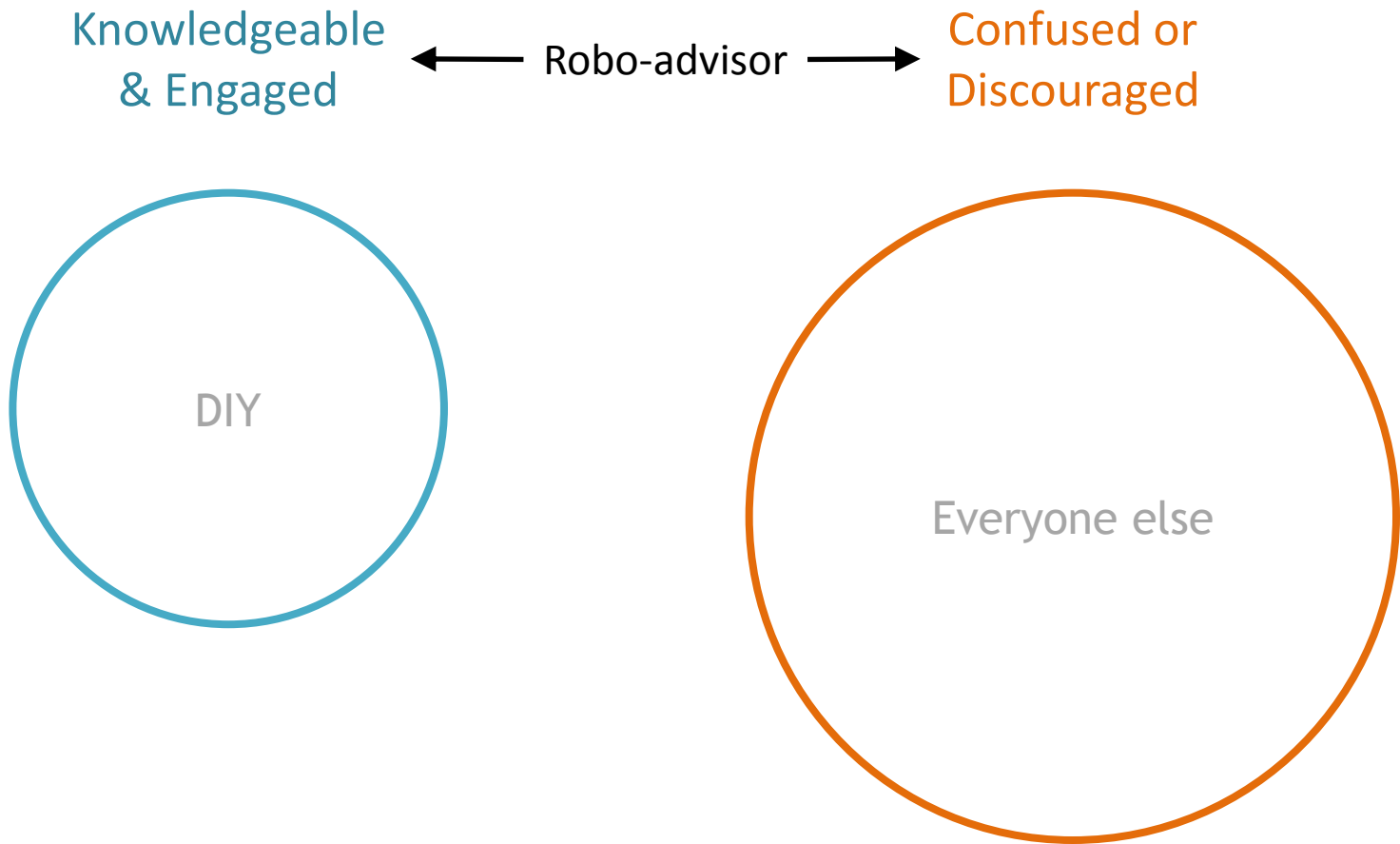
- ❖ Mary runs out of money at age 89
- ❖ \$1,000,000 of lost after-tax retirement income



- ❖ Mary runs out of money at age 95
- ❖ \$62,000 of lost after-tax retirement income

# What type of investor am I?

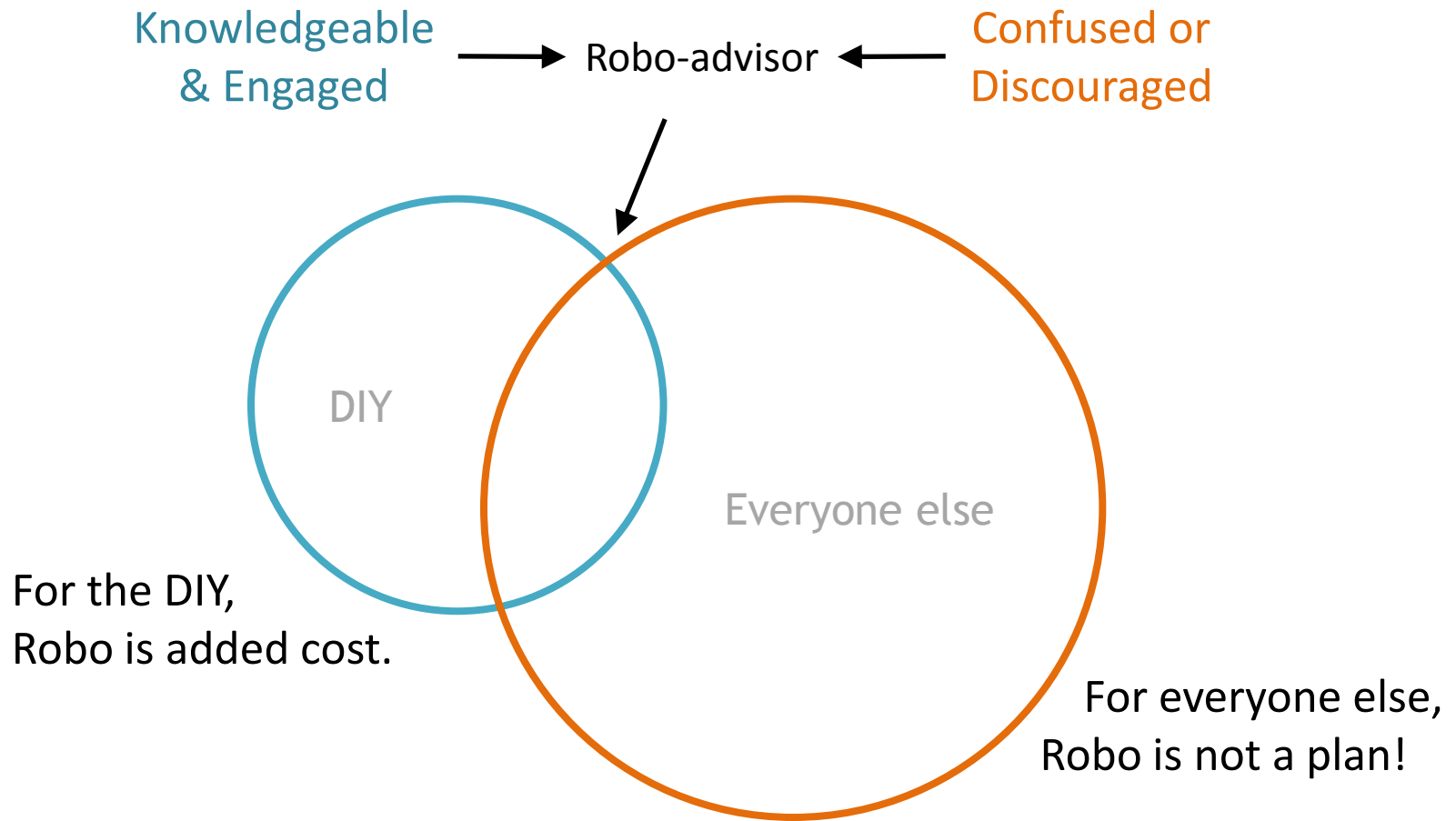
The one question investors need to ask themselves!





# What type of investor am I?

The one question investors need to ask themselves!



# The Bottom Line

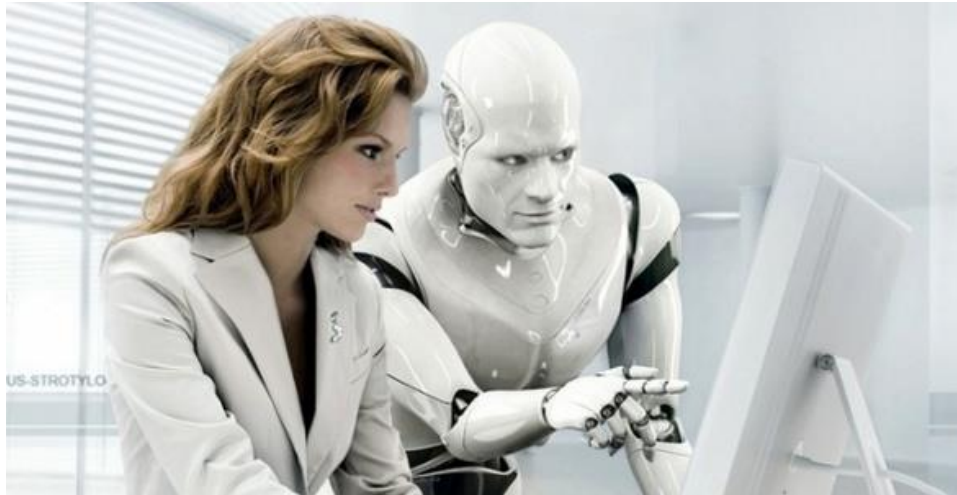
Using a Robo-advisor  
could cost you \$1,000,000  
in lost retirement income!

# What Should You Do?

1. Define your **Value Proposition**, and share it with your clients.
2. Talk to your clients about the difference between **Cost & Value**.
3. Review your **Technology Stack**, look for ways to improve efficiencies in your practice.

# www.RazorPlan.com

In the competitive world of digital investment platforms, you will not be replaced, you are the key to their survival.



# Thank You

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