

PROFITABLE PRACTICE

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You're A Successful Professional. Are You A Successful Investor?

by Michael McCloskey



PROFITABLE PRACTICE

After decades of hard work it's finally time to retire and enjoy the fruits of your labour. You were fortunate to secure a fantastic selling price for your dental practice. Or maybe you are just starting to think about your retirement and are putting away money for the future. In either case, the cash in your bank account is earning next to nothing.

Dealing with the realities of inflation and your own longevity mean that you need to keep your money growing during your lifetime. In today's low interest rate environment, a material portion of your investment portfolio is likely to be in equities. So how should you go about doing that? Should you do it yourself or do you need some help?

Many smart and talented business people are intimidated by the prospect of investing and often make poor financial decisions. As we age, the importance of making wise decisions only increases.

Doing it yourself

One key to successful investing is recognizing that a stock is really an ownership interest in an operating business, not a piece of paper. Just as any buyer would do on the purchase of a professional practice, before buying a stock you need to study the underlying business:

- Is the business an attractive one?
- Does it generate high returns on capital and free cash flow?
- Is the industry likely to prosper or face headwinds in the coming years?
- Does management look after the owners (shareholders) or only themselves?
- How attractive is the valuation of the business relative to other investment opportunities?

Successful investing also requires that you put in the time to understand how to value a business, and to wait patiently for an opportunity to invest at an attractive price. Having run a success-

ful practice and graduated from medical school, you clearly have the ability and intelligence required. You simply need to put in the time to learn how to invest successfully, and then put those skills into practice.

I will admit that it is a lot of work and you may prefer to spend your time on the beach or the golf course instead of reading annual reports. To each their own. Just make sure that you are being honest with yourself before deciding if you should be doing your own investing.

For those who lack the aptitude or desire to put in the time and effort needed, there are still options. Passively investing in a basket of low cost exchange-traded funds (ETFs) is a perfectly suitable strategy. Another alternative is to engage a professional advisor to help you build your investment portfolio.

If you do decide to invest in equities, I suggest that you properly diversify. I have always advised clients to do their due diligence, and then select a few trusted money managers, not just one. Having all your eggs in one basket adds unnecessary risk.

Hiring a professional

If you have made the decision to get professional help with your investments, there are a few simple questions that you should ask before entrusting someone with your hard-earned savings. The answers that you get back should tell you almost everything that you need to know.

1. Do you invest your own money alongside your clients?

It never ceases to amaze me how many professional money managers recommend their products to others and yet they won't "eat their own cooking". If a money manager doesn't have enough faith to invest in his/her own products, I suggest that you hold onto your wallet and head for the door.

2. What are your historical returns?

It is a straightforward and basic question, yet I have dealt with many people who cannot get a straight answer out of their financial advisor. "It's complicated" is a common refrain. The answer should be specific and the manager should have a long-term track record of delivering for his/her clients. I suggest that you measure their performance over several years. You should also make sure that the person you are talking to was actually responsible for that performance and didn't just inherit the track record from another portfolio manager who has since left the firm.

3. What is your investment style?

Different managers have different styles and the investment approach of the money manager you are considering should resonate with you. As we approach retirement, capital preservation becomes more important. A money manager's historical portfolio management practices should also be consistent with their stated investment style. Style drift is something that would make me nervous. Discipline is an important element of successful investing.

Do your homework

I suggest that you also take a quick look online to confirm that the candidate is properly registered with the securities commission in your province and has a complaint-free track record. Requesting a few referrals from existing clients and speaking with them is also a good idea.

A few key common sense questions should tell you most of what you need to know. Don't be afraid to ask the tough questions. You spent decades building up your practice. Make sure that you take the time to set yourself up for continued financial success as you approach retirement.

Disclosure: Timothy A. Brown, CEO of ROI Corporation Brokerage and Publisher of *Profitable Practice* is a client of GreensKeeper—ROI Corporation Brokerage is not.

Bottom Line: Investors have the option of going it alone, or hiring a professional to manage their money. If you choose the latter, ask the right questions and take your time to ensure the advisor you have chosen suits your investment style.



Michael McCloskey

Michael is the Founder and President of GreensKeeper Asset Management. He founded the company in 2010 after successful careers on Bay Street in law and investment banking, and is a regular contributor to the *Globe and Mail*. Michael has over 70 per cent of his immediate family's net worth invested alongside his clients at GreensKeeper. He can be reached at 905.287.5596 or michael@greenskeeper.ca.