



# Momentum Wealth Management

## Momentum Wealth Management – How can we add value?

**Matthew Karam, CFA, CFP®, CIM® - Investment Advisor – TD Wealth Private Investment Advice**

### Summary

At Momentum Wealth Management, our goal is to provide you with value-added wealth solutions to best achieve your financial goals. We are focused on helping you maximize your wealth by emphasizing these four core principles:

- Comprehensive financial planning.
- Tax efficient wealth solutions.
- Aligning our compensation structure with your best interests.
- Maintaining a rational and objective view of the markets.

### Comprehensive Financial Planning

We believe a detailed financial plan is the cornerstone of our offering to you. The outcomes from a financial plan provide a roadmap to help guide us to achieve your financial goals. During our discovery process, we will typically cover the following topics:

- Financial Management
- Retirement Assumptions
- Corporation Considerations (business owners)
- Insurance Coverage
- Estate Planning Strategies
- Charitable Giving
- Tax Considerations

We think of a financial plan as a process, and not a product. Goals change over time, and in turn, so do the solutions to assist you in meeting those goals. We have a number of financial planning resources to help ensure we provide the quality of advice that you require. Our financial planning team is as follows:

- *Matthew Karam, CFA, CFP®, CIM® - Investment Advisor – TD Wealth Private Investment Advice*
  - Initial point of contact and creator of the financial plan.
  - Primary purpose is to find optimal solutions to support you in achieving your financial goals.



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If needed, Matthew will engage these TD specialists regarding your plan:

- *Maurice Gould, C.A. – Vice President and Estate Planning Advisor – TD Wealth Insurance Services*
  - Maurice will strive to determine the form of coverage for all of your financial and non-financial assets in case of unforeseen events. The strategic use of life, disability, living benefit and annuity products can also assist you to preserve your wealth, sustain your business and minimize tax obligations.
- *Heather Richardson TEP – Executive Trust Officer – TD Wealth Estates & Trust*
  - Heather will endeavor to assist clients in making educated and informed decisions to support the legacy they worked so hard to build. More specifically, Heather's Corporate Executor service seeks to provide clients and their families with a smooth and effective transfer of their wealth.
- *Nicole Ewing LL.B., TEP – Business Succession Advisor – TD Wealth, Wealth Advisory Services*
  - Nicole will help to maximize your business' value, as well as create and implement a plan for the smooth transfer of your business down the road.

To summarize, the purpose of a customized financial plan is to outline your long and short-term financial goals. Our team of professionals will seek a course of action to help achieve those goals.

### **Tax Efficient Wealth Solutions**

A crucial aspect of our asset allocation process is to establish an optimal investment portfolio to help maximize your rate of return after both taxes and inflation. Here are just a few tax efficient investment strategies we consider with our clients:

- Determine the proper allocation of assets between registered (tax sheltered) and non-registered (taxable) accounts.
- Use of tax efficient investment vehicles.
- Passive income and corporate succession planning strategies for business owners.
- Withholding tax planning strategies on foreign investment income.
- Dual citizen asset allocation considerations.

We are also committed to collaborating with your tax advisor (including the recommendations from your financial plan) to help ensure consistency with your existing and future tax strategies.



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### **Aligning our Compensation Structure with Your Best Interests**

We believe implementing the right compensation structure plays an important role in ensuring your financial advisor has your best interests in mind. For that reason, it is our opinion that a fee-based compensation plan is ideal for facilitating objective financial advice. The concept is simple: a fee based model imposes an annual fee based on a percentage of your assets.

For example, we do not charge fees for buying and selling investments, annual account renewals, or use investments with redemption costs. Some of the fee-based advantages include:

- Your fee is reduced as your assets grow beyond certain levels.
  - Family accounts are combined for fee purposes (of note, confidentiality is maintained between family members).
- Fees may be tax deductible against income in certain circumstances.
- We are free to reallocate your assets without incurring transaction costs.
- Costs are fully transparent; compensation is not hidden and is reported on an annual basis.

We believe that our clients stand to benefit greatly from a fee-based relationship. We are motivated by preserving and growing your assets over the long-term, not by generating commissions.

### **Maintaining the Right Temperament to Think of Markets in a Rational Manner**

Human behavior plays a significant role in investing. I believe the allegory by famous investor and teacher, Benjamin Graham best characterizes the behavioral aspects of the stock market. Graham likens the stock market to a person named 'Mr. Market' with manic-depressive characteristics. Here is an excerpt from Warren Buffett's 1987 Letter to Shareholders on the subject<sup>1</sup>:

"Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

<sup>1</sup> <http://www.berkshirehathaway.com/letters/1987.html>



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Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, *you're* the patsy."

Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising "Take two aspirins"?



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The value of market esoterica to the consumer of investment advice is a different story. In my opinion, investment success will not be produced by arcane formulae, computer programs or signals flashed by the price behavior of stocks and markets.

Rather an investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behavior from the super-contagious emotions that swirl about the marketplace. In my own efforts to stay insulated, I have found it highly useful to keep Ben's Mr. Market concept firmly in mind."

In my opinion, the most important take-away from this description of 'Mr. Market' is that the market is there to serve you, and not to guide you. I also believe the most logical way to approach stock ownership is to view it in the same way you would value a family business. With a family business, you will not receive purchase offers at the same frequency as the continuous buying and selling in the stock market. As a result, a business owner is less susceptible to some of the irrational behavior demonstrated by 'Mr. Market', and is therefore more likely to be focused on the long-term prospects of their business. Unfortunately, even investment professionals, including pension fund managers fall victim to the irrational behavior of 'Mr. Market'.

For instance, in 1971 with the S&P 500 trading at tremendously expensive levels, pension fund managers invested a record 122% of net funds available in equities – at full prices they couldn't buy enough of them. In 1974, after the bottom had fallen out, they committed a then record low of 21% to stocks<sup>2</sup>. In contrast, a rational investor would have viewed the 1974 bottom as a tremendous opportunity to purchase equities, and the exceptionally high valuations of 1971 as an opportunity to reduce stock exposure.

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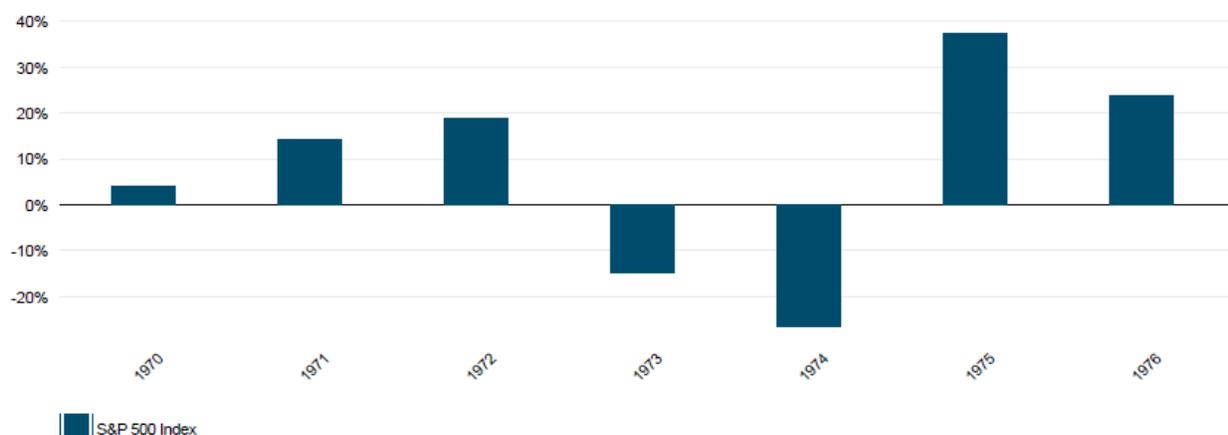
<sup>2</sup> <http://www.berkshirehathaway.com/letters/1978.html>



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## Returns Chart

Calendar Year: 1970 - 1976



See Standardized Performance Data and Disclosures. Performance for periods greater than one year are annualized unless specified otherwise. Selection of funds, indices and time periods presented chosen by advisor. Indices are not available for direct investment and performance does not reflect expenses of an actual portfolio. Performance data shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This report and the information contained herein are subject to the terms of the End User License Agreement for Returns Program.

### A Comment on Stock Valuation

Stocks essentially have two components that factor into their total return: a return based on the projected future cash flows, and a return based on previous prices. Logically, it is much easier to predict the long-term prospects of a company based on future cash flows (especially when a company has demonstrated strong consistent earnings in the past). Other factors that contribute to anticipating cash flows are:

- 1) A durable competitive advantage.
- 2) Strong management committed to maximizing shareholder value.
- 3) Strong and consistent financial earnings (it is worth repeating).



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In contrast, stocks can also change based on previous prices, similar to the way artwork and collectibles are valued (the 'Mr. Market' factor). Aside from aesthetic appeal, artwork and collectibles are frequently bought and sold based on the hope another investor will pay more than its original purchase price. Generally, when utilizing this type of strategy with stocks, returns become less predictable, and can lead to the creation of both market bubbles and market corrections.

There have been two stock bubbles over the past 20 years: the Internet stock bubble of the early 2000's, and the U.S. real estate bubble in 2008. Today, we arguably have the makings of a similar bubble with current cannabis stock valuations, which in my opinion appear to be based more like artwork and collectibles than rational investment principles.

For the long-term investor, stock valuations based on 'Mr. Market' tend to regress back to rational investment principals, and their mispricing can create tremendous buying opportunities for patient investors. In other words, market volatility presents an opportunity to purchase high quality businesses at reasonable prices. Over the long-term, a company will be worth what it can produce, not what it will sell for tomorrow.

We take the same approach to investing - with a strong focus on business fundamentals and long-term returns. Comprehensive portfolio management involves more than just traditional stock and bond analysis; it requires evaluating the entire investment universe to create a portfolio to best meet your needs.

### Conclusion

To sum up our value strategy, we focus on four areas of wealth management:

- Financial Planning.
- Tax Efficiency.
- Implementing the Proper Incentive Structures.
- Objective and Rational View of Markets.

As always, we look forward to reviewing these principles with you – whether you are a new or existing client.



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