The Just Word Podcast

Transcript of Episode 7 – Impressive Performance by Justwealth

Pat Bolland 00:01
James, great to talk to you ... before we actually talk about how you do things and how well you do things. I'd like to congratulate you on your nomination with Wealth Professional, that magazine, I think this is the third time that you got it ... Portfolio Manager of the Year. Must be nice, I'd love your reaction, it must be nice to be recognized by your peers.

James Gauthier 00:24
Yeah, it is the third time. Thank you very much. It is nice to be recognized. I think everybody likes to be praised once in a while. It's, it can be challenging, trying to help people with their investments. And when you're recognized for it, it's it's very gratifying.

Pat Bolland 00:41
Do you think you'll win it?

James Gauthier 00:44
Fingers crossed? Not so far, so maybe third time's a charm?

Pat Bolland 00:48
Yeah. Well, I mean, you spent a whole career, it's well deserved. Okay, now to the subject at hand. And I'll start off with the hard part, because Mark Twain once said "Lies, damned lies and statistics" James, you know, as well as I, the numbers can be manipulated. What do investors need to watch for when they're looking for performance rankings or reporting?

James Gauthier 01:14
Yes, absolutely. Statistics can be manipulated. And you know, I spent a good time, a part of my career analyzing fun performance manager performance, looking at comparisons, the right way to do them and trying to find flaws in you know, arguments put forth by unscrupulous sales people. So I would say next to politics, investments are actually the the second most widely used manipulators of statistics. So, but not as bad as politicians.

Pat Bolland 01:49
Why is there no, James, some kind of a neutral body that can look at these things? And I'm thinking in particular, something like a Morningstar?

James Gauthier 01:59
Well, I mean, Morningstar does their best to try and allow people to have what I would call apples to apples comparisons. So they produce a lot of information, they have a lot of analyzing power in the different packages or surveys that they make available. But it's, there's some advanced stuff in there. I mean, you need to have a degree to be able to decipher a lot of this

information, and the average investor might not have that background. So if you don't know what you're reading, there's really no point in trying to look at it, you need to have someone to be able to interpret it and tell you what it means...

Pat Bolland 02:32
Okay, then there are of course, mutual funds, and ETFs, and robo-advisors and all kinds of people, how do they level that playing ground when there's different fees associated to each one of those tiers?

James Gauthier 02:48
Well, Morningstar specifically focuses on mutual funds. That's the main component of what they do. There are all those different kinds of investments and they need to be understood properly, to know how to be able to do those fair comparisons. Regulators do put out rules, and professional bodies, like the CFA Institute, puts out guidelines on how performance should be reported. So there are standards out there. But even with these safeguards in place, people still need to know how to do the proper comparisons. It's not just as simple as you know, looking at data on any website.

Pat Bolland 03:24
Okay, let's get to the numbers. What stands out as far as you're concerned, and your performance?

James Gauthier 03:32
Well, where we are in the calendar year, right now, we're roughly one year past the meltdown that happened in the markets due to COVID back in March of 2020. So people that are starting to get their their first-quarter numbers available and being produced and, and put on websites, the year over year comparisons are going to be some pretty shocking numbers. The one year numbers are going to be extremely high. We're no different. If I take it our look at our one year numbers, our most conservative portfolio, which is our capital-preservation portfolio, it has a one year return of almost 9%. That's conservative we expect this thing to be you know, a little bit more than gic is two to 3% returns, it was 9% last year, and that's our lowest return. Some of our more aggressive portfolios returned over 50% over the last year. But all of that has to do with the low starting point that we had one year ago. So anybody looking at one year numbers should not be so shocked to see double digit or or you know, 20, 30, 40% returns, it should be expected. I think what's more important for us or relevant for us is that we recently hit our five year anniversary. And we can now produce five-year histories for performance of most of our portfolios. And that's important because you shorter-term performance can have lots of flaws in it, it could be a unique period in time, like we've seen over the past year, it could be a period where some kind of fad or bubble was influencing returns like a tech bubble. But once you start stretching that performance period out to five years, a lot of these short term anomalies kind of average out. And five years is kind of a good ballpark to be able to say, that is representative of a market cycle and allows you to make fair comparisons between managers. So that's we've been looking at trying to compare our five year returns to a lot of the other competitors out there.

Pat Bolland 05:38
So okay, that begs the question, how did you do? Let's talk about your competition. Other asset managers, like the banks, and like other robo-advisors, start with the banks.

James Gauthier 05:51
Okay, so the banks, and I mean, you can throw in a lot of other companies with the banks, I don't want to pick on the backs even though I've got data on them ... insurance companies, the other mutual fund companies, a lot of them will put out kind of these packaged products, which are basically, portfolios very much like we put together. You've got a range of portfolios going from low risk to high risk, they're, they're widely diversified. How we compare to the banks, is a little staggering. We kind of expected as our theory that we should be beating the bank-type funds by about a percent, percent and a half, because we have a percent to a percent and a half lower fees. If we're providing the same kind of risk level and the same type of diversified securities, you know, we expect market returns less fees. And because we have a one to one and a half percent advantage, we expect to beat them by one to one and a half percent. But what's played out over the past five years is the we're beating the bank funds on average, by about 3%. So above our expectation. And what we found is by looking a little bit deeper, we do have that one to one and a half percent advantage in terms of fees. But just the, I guess the quality of our asset allocation is better than what the banks have done in their portfolios, adding that other kind of one to one and a half percent to to account for that extra return that you're getting with our funds.

Pat Bolland 07:18
Okay, let me interrupt there, James, because you know, as well as I that one to one and a half percent on a compounding basis, might actually add up to that 3%. Or you get close to that. Is it merely compounding?

James Gauthier 07:33
No, that's 3% in total per year. So if you compound that it's actually quite a bit more.

Pat Bolland 07:44
That's staggering.

James Gauthier 07:46
It is, it surprised me.

Pat Bolland 07:48
Okay. What is it about the banks that they're doing wrong, then? I mean, you're good, obviously. But what what are they doing bad?

James Gauthier 08:01
Well, banks, and again, I don't want to just pick on the banks, it's any for-profit organization. Banks are really exemplified a little better than others. But banks are focused on generating profit, they are not focused on generating the best returns, they want to make sure that they can

continue to meet the lofty expectations of their shareholders, which is to always get more and more profit all the time. So they're always looking for ways to extract money from their clients. And when you take a look at how they manage their portfolios, they don't exactly hire the best talent to produce these types of portfolios, they tend to have junior people manage these types of investments, They, they have conflicts of interest. So sometimes they will put in products that emphasize greater profitability, but not necessarily better returns, just because that's the mentality that they have,. They tend to want to get as much profit as possible. So they charge as high fees as the market will bear. So we've got, you know, a conflict-of-interest free process where we go out and we look for the best investments possible. And we try to have a very low fee approach. And both of those give us advantage over the bank.

Pat Bolland 09:18
The 3% number though, as you point out is staggering. I want to dig into that a little bit deeper if we can. We're going to do something a little bit new on the show. On the Just Word podcast. We're going to put in an advisor break James, but when I come back, I want to talk about competition, direct competition with the robos