Fred Masters

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SPEAKERS
Pat Bolland, Fred Masters

Pat Bolland 00:24
Fred Masters is joining us now. He's written an article in Canadian money saver magazine about Warren Buffett, and it was called The Oracle of Omaha. Has Left the Building, and I've always been a Buffet fan. But he's also written a book Lessons on Mastering Money: the personal finance guide for Canadians in their 20s and 30s. He's also the president of Masters Money Management... Fred, a real pleasure to meet you.

Fred Masters 01:05
Well, thanks so much for having me on the show. Appreciate it. Pat.

Pat Bolland 01:08
You know, I went through that article with fascination, because you reduced the Oracle of Omaha down to one article, which is amazing in itself, but you mentioned, you know, kind of off the top, at least 97.6% of Canadian equity mutual funds underperformed the S&P TSX Composite over the decade that ended in June of 2025 and if anything the market has continued to go higher from there, at least the TSX has overall. Why do you think it is, given that kind of data, that Canadians continue to invest so much in mutual funds instead of just plain index funds that Warren espouses.

Fred Masters 01:46
Well, like you Pat, I'm a big fan of Warren. Buffett have been so for decades. So it was a real great opportunity to do a deep, deep dive on some of his thinking. You know that SPIVA research that I really pulled that stat from stands for s, p, index versus active. And what SPIVA does is it analyzes how these active mutual funds do versus the index. And as as that stat that you shared indicated, really, the active managers don't do very well. And unfortunately, it's just continued. So as of December 2025 I can update that stat. The 10 year stat is even more definitive, if you can believe it, Pat, 99% of Canadian equity mutual funds underperform the S, P index. So let's call it everybody. So all those Canadian equity mutual funds underperformed. So to your question, why do Canadians have so much money invested in those well, you use the term retail investors, which is pretty accurate. You know, so many

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Canadians are sold those expensive mutual funds at the branch level, bear banks. When you think about it, our financial institutes are behemoth you know, we were talking about RBC and TD both having over 1000 retail locations. And it's certainly been reported by many news outlets that those staff members are under pressure to sell and they sell their own products, which are highly profitable. So bottom line, unfortunately, it comes down to being a byproduct of a lack of consumer education.

Pat Bolland 03:06
You know, it's interesting. You point out that Warren Buffett's instructions to his wife for his inheritances go 90% for the S&P 500 , 10% in government bonds overall. What does that tell you about how Warren thinks about professional money management.

Fred Masters 03:22
So let me draw attention to a very similar asset allocation decision that impacts all of us as Canadians that I wrote about this last fall in another Canadian money saver, peace, Pat, so CPP investments, which manages the CPP benchmarks their results, and they benchmark using a remarkably simple formula. It's a portfolio containing only two index components, 85% weighting global equity index and 15% weighting in Canadian bonds. That's simple. So you have Buffett suggesting a 90% 10% asset allocation, equity to fixed income and CPP, using an 85% 15% benchmark to measure results. To me, Buffett's stance is a pretty clear indication that he has no faith in active money managers to beat the index over the long term. And of course, Buffett was in it for the long term, wasn't he, so by the way, SPIVA data backs up Buffett there too on his side. So 85% of large cap US funds have also underperformed the major index in the States, the S&P 500 and that's going back a decade, a decade, which really aligns with those Canadian results that I alluded to a little bit earlier.

Pat Bolland 04:30
Okay, and Buffett actually attributes the market irrationality to human emotions, fear and greed, in particular, for a 'money-saver' type of a person, what are the most practical ways to stay contrarian when the rest of the world and market is panicking?

Fred Masters 04:47
So I really like to emphasize or stress the personal and personal finance, because we are all on our own journeys. And often I talk about couples journeying together, but we're all we're all moving down a path, and we're at different spots along the journey. So the reality is, if you need money in the next two to five years for a down payment for a home, for example, or to buy a quality used vehicle, then that money should not be in the markets. So however, for long term financial goals such as retirement saving, embracing equities makes sense, but so much hinges on the phrase investor. Know thyself. We are human. We are impacted big time by emotions, and if you have watched the recent market chaos driven by oil shocks, inflation worries, potential, AI impacts, private credit concerns, it would be easy to sell. Given all that uncertainty, we will have a bear market at some point, Pat, where major stock indices do fall by 20% or more, as you and I both know, and If opening up your monthly statement and seeing your portfolio is down by 15% is going to sicken you and make you prone to selling, then you likely need to dial back your equity exposure. So personal risk tolerance and investing timelines are really important, as is having a personal investment policy document which really drives your investment decisions. You need to share this, or better yet, create this with your partner. If you were in a

relationship, you want to go together, stick together. Saving is hard to do, and sadly, counter cultural in many ways, but the financial freedom that it creates is priceless.

Pat Bolland 06:10
Let's talk about fees, and you mentioned that a 2% fee versus a 0.05% fee can mean a $1,950 annual difference on $100,000 portfolio. How can young investors, who are obviously the focus of your book but also your article to a degree, better visualize the nasty combination of high fees and under performance over, say, 30 years?

Fred Masters 06:37
So when I do my presentations in person, Pat I like to walk across the stage when I talk about fees. And I like to do this, I like to say 2% 2% 2% 2% 2% 2% 2% so I like to kind of walk across and give them an idea of how that can accumulate. And the reality is, if you lose 2% on an annual basis over three decades, you likely have had your portfolio shrunk by 1/3 which means, in terms of personally, that you're either going to have to have a lot longer, that you're going to have to save for retirement, or you're going to have a lot less money going into retirement. So it's really a wake up call. The thing I like about fees is we can control them, right? There's so much about personal finance we can't control, I can't control what the Bank of Canada might do next month or later this year with with rates, but I can control my fees, so I always encourage folks to be fee cognizant and keeping fees low. Really, really matters.

Pat Bolland 07:30
I love Warren Buffett for some of the the Quotes that he gave, one he gave he gave out in an interview on TV. I think it was and he said, " You have an advantage Carnegie and Rockefeller never had. You can rearrange your entire business empire at a moment's notice with practically no cost." And he said that "most people turn that advantage into a disadvantage" because there's a natural urge to react. Is my interpretation of that, if a legendary investor like Warren Buffett admits he has no crystal ball for the short term market. Why is the temptation to practice market timing so prevalent among individual and even institutional investors?

Fred Masters 08:13
Yes, for sure. So I really think this is news cycle related, and it's also investor anxiety that can create it. So I started investing back in the early 90s, and I've witnessed in my time three major market crashes. So the.com bust at the start of this century, the financial crisis in Oh 809, and the covid crash in 2020, so looking back, you and I know these were great buying opportunities at the time. They were great sources of fear, but they were incredible buying opportunities. There's one high profile investing expert who has been warning about a major market crash for many years. Now. I've heard him speak on many occasions, and he is able to rattle off all kinds of reasons to be worried about the stock market. He is a perma bear. But the reality is that the TSX, S and P composite Pat has averaged about 5% over the last five years as of the end of March, despite all the financial uncertainties over those last five years. So there's something I like to talk about my sessions, and that's the rule of 72 so if you take 72 and divide it by that 15% annual return, that's going to lead to result of your money doubling about every five years. So if you were fearful and you just sat in cash over these last five years, so in terms of your long term investing goals, if you panicked, just said, I'm just said, I'm just going to hold on here and not

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do anything. You missed out on doubling your money over those last five years. So that was an expensive error to be sure.

Pat Bolland 09:30
Wow, no kidding. I'm going to go back to that article as I read it, and you suggested that Canadians should monitor their asset mix, especially after strong markets like we've seen in 2025 for instance. What specific triggers should an investor look for to decide it's time to trim equity or rebalance?

Fred Masters 09:52
So I'm fortunate to sit on an organization that oversees some investments for a group, and so we make all of our decisions through the. Ends of an investment policy document which drives our decisions. So I would encourage folks to have a personal investment policy document also. So I'll give you an example. Let's say we've got two young couples, so we'll call them couple a and couple B, all for the folks have no corporate pensions, and they're going to use their RSPs to save for retirement. So let's look at couple a. They contribute cash on a monthly basis and invest in low cost asset allocation, ETFs, or they use a robo advisor, such as just wealth with a 7030 equity fixed income split. Since those wonderful products, auto rebalance back to target weightings, this couple won't have to monitor their asset mix at all. So let's look at couple B now. So they do all those same things, but instead of using a robo or using an asset allocation ETF, they use two individual ETF products, so a global equity product and a bond product. In other words, what's going to happen is their asset allocation percentages are going to change, just because that's what happens over time. So given the recent bond market weakness and strong equity results, couple B might be looking at a personal asset mix that has drifted way beyond their 7030 they might be looking at an 8515 asset allocation now. So there's risk there, right? Because all of a sudden, their equity weighting has drifted well above where they want it to be. So a simple strategy, I like to encourage folks to you to do is to revisit the results each quarter and rebalance once weightings drift over 5% out of target weightings. That, to me, seems like a prudent strategy, and given that the account is tax sheltered, the RSPs taking profits with not creating tax consequences too, which is another positive.

Pat Bolland 11:32
Yeah, yeah, it's a good idea to do that, but it's a lot of work. Even once a quarter is a lot of work. Let's go back to Warren Buffett. He's 95 years old. He gives up his role as the Chief Executive Officer at Berkshire Hathaway. And how do you expect Greg Abel, who's taking over his role? Is it going to be a new era for Berkshire Hathaway?

Fred Masters 11:56
Well, Canadian Greg Abel, too. Isn't that great news?

Fred Masters 11:58
I didn't know that ...

Fred Masters 11:59
Yes, yeah. So He's a Canadian, so we've had a little glimpse into Greg's thinking, because he wrote his first annual letter to shareholders, and it came out last month. So he certainly is messaging Steady as

she goes. There's no radical shift here in terms of his leadership style. He signaled, for example, that he is in no rush to deploy the massive cash fortress that that Buffett always liked to sit on didn't Buffett always like to keep some dry powder. A so Berkshire Hathaway is sitting on almost 400 billion in cash and just obviously patiently waiting for an opportunity to deploy. He's also signaled that he has no plans to begin paying a cash dividend. Again, that's considering he's sitting on 400 billion in cash. Buffett was of the same mindset, and as Buffett did in the past, he's going to start his share buybacks. Once again, he's also signaling the company's culture and values would continue to drive decision making, and that he is personally planning on sticking around for a couple of decades, despite his current age of 63 so it sounds like he'll be there in that seat for a long, long time, as Buffett was. So we're in really may, in really many ways. Pat, it's business as usual at Berkshire Hathaway under Greg, wow.

Pat Bolland 13:04
You know Fred, I was negligent. Off the top, I forgot to mention that you also are, I think you're retired educator, right? How do you incorporate the Buffett philosophy is commitment to lifelong learning into your own teachings in financial wellness for, I guess, university students.

Fred Masters 13:26
Yeah, you know, I've been doing a lot of corporate events lately. Pat too, because I think what's happening is people and culture experts are seeing the money angst amongst their staff, and they know that, you know, you've got staff who are checking interest rate changes during the day on their phones to try to figure out what they're looking at for a mortgage renewal. So lots of anxiety in that space too. So money worries continue to be the top sort of stress for Canadians. That's been the way for many, many years now it's across all ages and across all demographics. Ranks higher Pat than health concerns, relationship worries or even work related stress. So money angst is really ground zero for us from coast to coast to coast, in terms of what keeps us up at night. So much of this can be traced back to a lack of personal finance taught in schools. So my goal in my financial wellness presentations, whether it's in a school setting in the corporate world, is to basically equip attendees with the Personal Finance Fundamentals that will allow them to take better control of their financial lives, to sit at the table and understand the vernacular and not be overwhelmed, to me, is powerful, and we've got so many folks that just don't understand the terminology. They're so overwhelmed, and in some cases, they have delegated. So there's nothing wrong with this, right? We delegate lots of things in our life, but if you've delegated your financial life to someone else, it could be a spouse, a partner, or even a financial advisor, I would encourage you to still be at the table. You've got to know enough to be at my at the table. So my sessions are really designed to allow folks to sit at the table and feel comfortable. So one of the hats that I wear is that of a licensed mortgage agent. And I had a recent conversation with a young couple who are looking at a mortgage renewal coming up later this spring. So much of that conversation. Was about teaching, for example, how the interest rate attached to a variable rate mortgage is impacted by the Bank of Canada's interest rate moves, which are dictated by inflation outlooks in the economy. As I often share, I'm still doing what I love, which is helping others on their personal finance journey. I just don't have to do any marking Pat and I don't do any report cards anymore. So it puts me in a really good spot. No kidding.

Pat Bolland 15:21

You know, I just want to go back to your book too. Lessons on Mastering Money. You say it's a personal guide, finance guide for Canadians in their 20s and 30s. It seems to me that the teachings there might be universal.

Fred Masters 15:33
Yeah, there's no doubt that the basics that I teach when I go into schools, and I've done elementary schools, high schools, secondaries, university setting those those teachings are the same as I do what I deliver to the corporate world too, because lots of folks in their 20s and 30s and 40s still try to struggle, struggle, taking control their personal finances. So you're right. They are. They are Timeless Lessons for sure.

Pat Bolland 15:54
Fred, a real pleasure. Thank you.

Fred Masters 15:57
Thanks. Enjoyed being with you Pat

Pat Bolland 16:00
Fred Masters.

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