

Exchange Traded Funds

Tools of “The New School” Advisor

I suspect many investors who now manage their own portfolios would enjoy the convenience of a managed portfolio if they were convinced of the overall value of the service. Investment management fees can be notoriously high and as such can seriously impede your long-term prosperity. That’s why independent-minded investors have sought out exchange traded funds (ETFs). Their rock bottom costs, tremendous trading flexibility and their ready-made, diversified portfolios make them ideal investment tools but unfortunately, these tools don’t come with instructions for building a portfolio.

ETF investors still have the challenge of asset allocation and many, I believe, would turn to the advice of professional managers if not for the sting of fees. A new money management model is beginning to appear that may change that reluctance into welcome relief. Welcome to “The New School” Advisory Firm.

Money managers who construct portfolios using ETFs can pass the cost savings on to their clients, making a previously expensive service far less painful. Hahn Investment Stewards & Company Inc. is doing just that. The Smithville, Ontario investment firm manages portfolios consisting exclusively of ETFs for an annual fee of .80% or less. Enhancing that attractive fee is a relatively low minimum investment of \$100,000 per account with a family minimum of \$250,000.

Hahn offers private clients a separately managed (not pooled), multi-asset global portfolio. The firm’s proprietary Active Seven-Stage Investment Process, developed over the past two decades, adds value by seeking consistent risk-adjusted returns. By exclusively using ETFs, or ‘listed portfolios’ as they prefer to call them, clients receive well diversified, low-risk and tax efficient portfolios.

The program is currently offered through a small group of accredited fee-based or advice-based financial planners. Advice-based planners will charge a consulting fee but do not receive any compensation from their investment recommendations. Fee-based planners, as the Hahn Web site describes them, add their planning services fee to the quarterly investment management fees that Hahn charges. This means clients using Hahn management may pay an additional .50% to 1% to a financial advisor/planner.

“As a matter of principle we do not take accounts directly,” says Wilfred Hahn, founder of the eponymous firm. “We believe very strongly that all of our financial services should be done in the context of an overall, holistic financial plan.”

“We endorse total stewardship,” continues Hahn. “This means reasonable fees and minimizing all the costs, including transactions.” Hahn says his portfolios average about a 30% annual turnover rate. Given that the firm has a strong expertise in global investing, a normally high turnover asset category, this low turn over rate is all the more impressive.

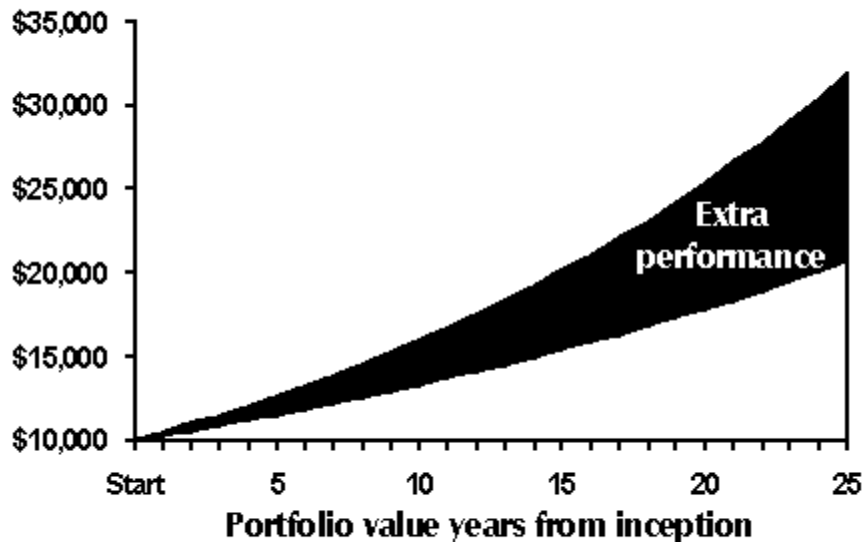
There's no doubt that the Hahn program is an indication of things to come. Institutions have been using ETFs to lower their management costs and achieve market returns since the inception of ETFs. More and more private money managers will be doing the same as knowledgeable investors demand lower cost products and services. In investing anyway, you get exactly what you don't have to pay for. In my view, "The New School's" enrollment will grow significantly in coming years.

Our Active 7-Stage Investment Process Adds Value



Chart Source: HISCo

Higher Performance Also Results From Lower Costs



Source Comparison: Actual Competitor Fund, International Equity (MER 3.05%) vs. HISCo global service fee employing iUnits MSCI International Index (MER 0.35%) – Pre-tax illustration.

Source: Hahn Investment Stewards & Company Inc., www.hahninvest.com

Howard Atkinson, CFA, CIMA, is author (with D. Green) of *The New Investment Frontier II: A Guide To Exchange Traded Funds For Canadians and Les fonds négociés en Bourse: Un outil de placement novateur pour l'investisseur avisé* (Transcontinental, 2003). He is the Head of Public Funds at Barclays Global Investors. Specifically, he oversees the development, promotion and ongoing management of BGI's iUnits and BARCLAYS*funds* product lines in Canada.

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