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Wilfred Hahn, of Hahn Investment Stewards & Co. Inc., spent two years building the model for i-Wraps but is finding it a challenge educating consumers and advisors on its advantages.

New tool wraps up low-cost investments

JONATHAN CHEVREAU-Financial Post

Exchange-traded funds, or ETFs, are one of the tools helping advisors deliver value to clients at lower cost.

Many independent advisory firms, such as Montreal-based PWL Capital Inc., use low-cost ETFs as integral building blocks of the portfolios they create for clients. They tack on their own advisory fees, of course, but are still motivated to find underlying investments that are cost-effective.

We're seeing similar strategies from other advisors who build core portfolios with the index funds of Dimensional Fund Advisors Canada (DFA). Those advisors believe active management does not add enough value to justify its higher fees, but the advice component pays for itself.

Into this environment comes i-Wraps, launched in May by Hahn Investment Stewards & Co. Inc. [see www.hahninvest.com].

Available initially in British Columbia and Ontario, i-Wraps creates custom-built portfolios of ETFs, selected from more than 390 available worldwide, with 41 more planned this year. Founder Wilfred Hahn, who for most of the 1990s headed Royal Bank's global investment group, took two years to develop the turnkey system for financial advisors.

Hahn describes i-Wraps as an "engine that mass produces custom portfolios. It's a piece of technology bolted on to our investment policy process." Depending on the client requirements built into an Investment Policy Statement, it runs the appropriate ETFs through an MER [Management Expense Ratio] optimizer.

When it's time to order the ETFs, it's done for multiple clients at institutional rates, thereby driving costs down still further.

Hahn says he built the model in anticipation of Ontario's Fair Dealing Model coming into effect -- or at least some version of it. "It's not dead by a long shot."

Therefore, fees are fully disclosed at all

levels. Advisor compensation is negotiable with clients but typically ranges from 0.5% to 1% of assets under management. On top of this, clients pay a fixed 80 basis points to Hahn's firm. The third cost layer is the underlying MERs of the ETFs themselves. These average in the low 20 basis points, Hahn says.

Even adding the three together, the all-in fee should come in below traditional mutual fund portfolios or wrap accounts, particularly as assets rise. Hahn's fees taper down after \$500,000 in assets. Above that level, clients would likely negotiate down the advisor comp portion as well.

Like any pioneer on the bleeding edge, i-Wraps is having a challenge educating consumers and advisors as to its advantages. Hahn has found the current referral environment a challenge in light of the confusion sown by referral-based deals involving certain well publicized but troubled hedge funds.

Hahn is licensed as an ICPM -- investment counsel and portfolio manager. There are also some regulatory considerations involved in offering i-Wraps through advisors who are members of the Investment Dealers Association or Mutual Fund Dealers Association.

Down the road, i-Wraps may deliver an Internet-based solution directly to do-it-yourself investors. Currently, however, the model calls for delivering i-Wraps through financial planners. Initially, the prime targets appear to be advice-only providers or fee-only planners charging by the hour, or independent practitioners set up as financial planners.

I'd think another market would be experienced advisors fed up with their current situations at big-name institutions and ready to strike out on their own. The kind of turnkey operation and back-office support i-Wraps makes possible seem ideally suited for smaller independent purveyors of financial advice.

Hahn is committed to passively managed ETFs for both equities and fixed income. There are now some 40 fixed income ETFs available worldwide, many with MERs of 18 basis points or less.

Hahn believes value is delivered by top-down asset mix calls, as well as the tax efficiency of the ETF structure. As well, for non-registered portfolios, i-Wraps fees are tax-deductible. He says when he does presentations to clients from bigger firms and they see what they're getting, they typically turn to their advisors and say: "All this for 80 basis points, so what are you doing?"

Not all advisors are comfortable in that situation but Hahn is unabashed. "It forces them to say what they're doing."

Thus, i-Wraps gives advisors a way to supply the investment component of their service, thereby freeing them up for true financial planning, and perhaps more prospecting time.

Further to the subject of prospecting and client retention, there's a new book out advisors should be aware of. Because it's aimed at consumers rather than advisors, Saturday's Personal Finance column reviewed the book in more depth. The self-published *A Second Opinion on Your Finances* is by chartered accountant and financial planner Warren Mackenzie. Most advisors "won't like the book," Mackenzie warns.

Mackenzie is a fan of fee-based advice and low-cost ETFs. He thinks consumers should negotiate harder for lower fees -- perhaps in return for referring new business to their advisors.

White-hatted advisors have little to fear from this book. It may even help them win new clients unhappy with their current advisors. The book includes tips on how clients can get the best value from an advisor, as well as how to choose a good one.

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