

Making the point on costs



Wilfred Hahn serves up
ETFs, technology, with
a side order of caution

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Lunch Money

Fifty basis points doesn't sound like much. But to Wilfred Hahn, half a percentage point is a big number for investors, especially when it's 50 basis points that could be niftily compounding in retirement savings over half a lifetime or so.

Hahn, founder and chief investment officer of Hahn Investment Stewards & Co. Inc., is making the basis-point point over a glass of mineral water at Far Niente, the popular Bay Street spot that on this hot mid-September day is a reservations-only oasis. "There are so many things we can't control in the financial markets. But there's one thing we can control: costs. In the long run, if we can lower transaction costs, it makes a huge difference compounded," he says as we cast an eye over Far Niente's new menu, introduced earlier in the summer.

"Over 25 years, if you can save even 50 basis points a year in costs, it's a big, big difference."

He says in a world where investors are scrabbling hard for yield and income, the unique Hahn emphasis on maximizing technology to concentrate on buying exchange traded funds (ETFs) the world over can make a significant difference in minimizing fees, costs -- and risks.

Meantime, we note there is a difference in the menu of the very restaurant that was the venue for



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Wilfred Hahn says technology allows smaller investors to access services that were once the preserve of the very wealthy.

the first Lunch Money more than five years ago. (Oddly enough, there's still no commemorative plaque or even a small shrine to mark the occasion.) Far Niente's dishes seem a little more exotic than on our last visit earlier this year, the prices a little richer.

For the first course, we split an ahi tuna spring roll with edamame-coriander puree and soya-lime dipping sauce, the tuna exquisitely rare. For the second course, Hahn orders the smoked chicken fusilli, with grilled sweet peppers, arugula, a big dollop of Woolwich goat cheese, seasonal herbs and chicken jus. Looking for something completely different, we go for the lobster tacos, which are blue corn tortilla cups filled with chilled lobster, mango and avocado salad, with jalapeno dressing accompanied by a California mixed-bean salad.

Hahn is in town on one of his frequent marketing trips from Kelowna, B.C., which he and his ETF-centred investment company now call home. An 18-year veteran of Bay Street who left Royal Bank of Canada's Global Investment Group in 1999, he moved his family and company west last year from Grimsby, Ont., after he and his wife fell in love with the Okanagan Valley and he realized location isn't everything in today's financial world.

"For years, I was running around international airports managing money out of a briefcase," he says. "It doesn't matter where you are. It could be argued it's healthier. I used to have a three-hour return commute every day from Grimsby to Bay Street. Now I come here every six weeks." (The firm still has a representative office in Toronto.)

The message he brings to prospective clients is the one he devised when he founded his company: Investment returns are going to remain lower than they were in the 1990s, so it's essential

to keep costs low while minimizing risk and avoiding losing money. The way to do that is to select ETF portfolios using Hahn Investment Stewards' proprietary technology through selected fee-based financial advisors.

In essence, he says, technology is enabling the smaller investor to get access to services that once were the exclusive province of the well-to-do. "It's kind of a paradigm shift on economics, whereas years ago nobody would think of having a discretionary account with an investment counsellor unless they had half a million. Most of them wouldn't take you anyway. Today, you can [deploy] that \$100,000 a lot cheaper than you can with a mutual fund. There are mutual funds still charging a [management expense ratio] of 2.5%, not including costs."

Hahn's investment management fees and transaction costs typically add up to 1.3% a year. The Hahn Wealth Navigator Series' nine portfolios have consistently outperformed their benchmarks. (More information is available at www.hahninvest.com, especially about the firm's new I-WRAP Performance Engine, which it says makes it the leader in managed account efficiency.)

At present, with Wilfred Hahn surveying the world with increasing caution, the firm's portfolios have up to 20% cash positions. "A lot of things are risky today," he says as our second courses are served. "In 2000, when we were hugely negative, there were places to hide. There was a 7% to 10% bond yield you could have. Cash rates were close to 5%. The euro was way down at US81 cents, so you could buy some euros that were cheap and some European bonds.

"I wonder what we can do today when everything is expensive. Well, what you don't do is lose money. And as global managers,

we've found some things around the world that are a little more attractive. That helps us to have more ability to ride things out."

Hahn is particularly concerned about the global weight of financial services stocks, which he pegs at about 30% of total market value. "Depending on how you calculate it, some analysts suggest that certainly in North America the financial services sector is accounting for well over 40% of earnings. I find myself asking how many people does it take to shuffle around money in my pocket?"

Well, there may be lots of money shufflers, but the problem for people in retirement and approaching it is a potential lack of money itself. "If folks my age [50] and younger want to retire at a decent rate, we've got to get more income security," Hahn says as lunch draws to an end. "And if half that income is going to the financial security industry, how are you going to build a portfolio? You've got to get those costs down."

So how, we ask as Far Niente clears out, is that message playing and how is Hahn Investment Stewards faring after four years in operation?

"I don't want to make us sound bigger than we are, but we're growing rapidly," Hahn says as we ask for the bill. "But we're still on our first billion," he adds, laughing.

The cheque, including tax, tip and two large bottles of sparkling water, comes to \$104.79, which, despite the slightly higher tariffs on Far Niente's menu, is still very much in line with general Bay Street prices.

Of course, as Hahn might tell you, less expensive restaurants do exist elsewhere. It depends how much you want to pay and how you assess the value.