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How advisors are tackling the biggest gaps in clients' financial knowledge

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One advisor says it's rewarding to see clients' financial knowledge increase over time as they start to ask the right questions or bring ideas to the table.
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Michael Dehal, senior vice-president and portfolio manager with Dehal Investment Partners at Raymond James Ltd., in Toronto, loves educating young people about financial topics.

He was walking through the city's Eaton's Centre mall in a suit and tie a few weeks ago when a recent university graduate working at a kiosk politely asked for a few minutes of his time.

"I'm 25 years old," the young man said. "What advice would you give me?"

Mr. Dehal knows there are many gaps in financial literacy among the general public. He sees them in clients who he has just started serving.

People often don't understand they can hold a broad array of investments within a registered account. They don't know that interest, dividends and capital gains are taxed very differently. And, they haven't grasped how exchange-traded funds compare to mutual funds, he says.

The lesson Mr. Dehal chose to share with the stranger in the mall that day is a more foundational concept: "You're entering your career. ... You want to start saving money today [and have] a disciplined approach, saving 10 to 15 to 30 per cent per paycheque into a savings or investment vehicle. ... Your future self, at 50, will thank you."

With his own clients, Mr. Dehal starts every new relationship with a primer on financial planning, investment products, his investment philosophy, and fees.

He points them to the knowledge centre on his website and his weekly e-newsletter for reliable and up-to-date information. And he emphasizes the key point that "wealth is created by how much you save, not by how much you make."

Taking time to educate clients, he says, builds trust.

"When you sit down with a client and provide financial literacy and educate them, it really strengthens that relationship between client and advisor. ... It also translates into more business through referrals."

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Big-picture knowledge gaps persist

Gillian Stovel Rivers, senior wealth advisor and branch owner at Surround Wealth Advisors, a unit of Assante Financial Management Ltd., in Burlington, Ont., has identified several critical big-picture areas new clients often need help in understanding.

One is the importance of a long-term mindset, which supports the strategic development of a wealth plan and investment policy. Another is an appreciation for micro and macro cycles and secular shifts, which can help clients steer clear of flavour-of-the-month investments.

Then, there are the related concepts of diversification and correlation. To help clients grasp them, Ms. Stovel Rivers uses metaphors related to music and food.

"I'll say, 'It's like having the right instruments play at just the right tempo and volume to create a symphony, or, 'It's just the right blend of salt or spice or fat or acid or sweetness to produce a gorgeous flavour in whatever you're cooking.'"

Ms. Stovel Rivers adds that clients also have to get past the fact that products and services that once met certain needs aren't appropriate solutions anymore.

For example, in an environment of low interest rates and rising inflation, bonds aren't the safe haven many clients still assume they are.

Essential to put 'meme stocks' in context

For Shiho Okuyama, investment advisor and financial planner at BMO Nesbitt Burns Inc. in Toronto, part of the financial literacy problem isn't so much a lack of information, but too much information that spreads faster and further on the internet.

"The sharing of ideas hasn't changed. It's how ideas are being shared – that's the game-changer. At one point in time, it might have been a hot stock tip by the water cooler, and now it seems to be the hottest meme stock on the internet or an online forum," she says.

"There needs to be some [more] education around suitability and how to determine that."

Ms. Okuyama brings the discussion back to where clients are now, where they want to be in retirement, and the roadmap they've created to reach the amount of money they need.

She also spends time explaining the relationship between time horizon and volatility to help clients understand the amount of risk they can take in their portfolios.

"What's quite rewarding about being in this position is that ... through many, many conversations over time, you educate [and] you can see how their knowledge is growing as you work with them [as] they start to ask the right questions or bring ideas to the table," Ms. Okuyama says.

“ Wealth is created by how much you save, not by how much you make. — Michael Dehal, Dehal Investment Partners

Those regular, ongoing conversations are critical to improving financial literacy, says Craig Baun, executive vice-president, senior investment advisor and senior portfolio manager at Wellington-Altus Private Wealth Inc. in Calgary. They provide an opportunity to make abstract concepts tangible and share perspectives on longer-term market trends.

Like Ms. Okuyama, Mr. Baun feels investors lack context when they flock to highly speculative investments such as cryptocurrencies and non-fungible assets.

He says many of them aren't seeing the parallels with the late 1990s, when tech stocks became unsustainably popular. They also aren't making the connection to their own long-term needs.

"A lot of times, our industry is bad for throwing out jargon to make us appear more knowledgeable, smarter or [able to] read crystal balls or tea leaves better than other people," Mr. Baun says.

However, he emphasizes clients' financial literacy is incredibly important because it takes some of the fear and negative emotion out of investing.

"If they have a better understanding, it allows them to make better decisions ... which leads to a better journey and better results. It's a win-win."

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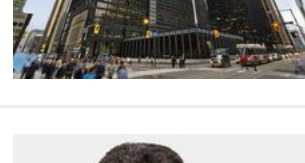
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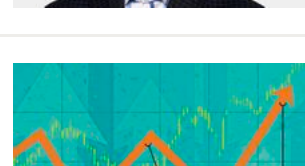
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