Should you become a DIY investor?

Posted on July 20, 2021 by Mark

According to a recent survey, I think *you should at least consider it.*

But, becoming a DIY investor is not for everyone. It takes desire, time, knowledge, temperament and other behavioural factors. Read on for my take and some great insights from a Certified Financial Planner (CFP).

Should you become a DIY investor? At least consider it!

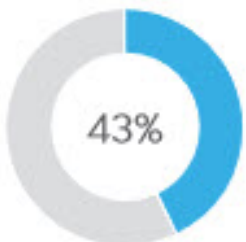
Based on the results from a past survey from the Ontario Securities Commission's Investor Advisory Panel, the results paint a rather poor picture about the advice some small- and medium-sized portfolio investors obtain from their financial advisor. *It's actually downright terrible.*

Based on the data I read:

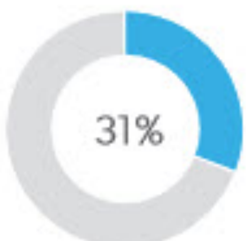
- 43% of investors did not believe they obtained *any educational advice.*
- Almost one-third of respondents (31%) were unable to say whether their advisor had spoken to them about planning for retirement, education or buying a home. ***(That's insane…)***
- Only one-fifth had received any advice about budgeting or debt management.

Some of those stats among others are in the images below:

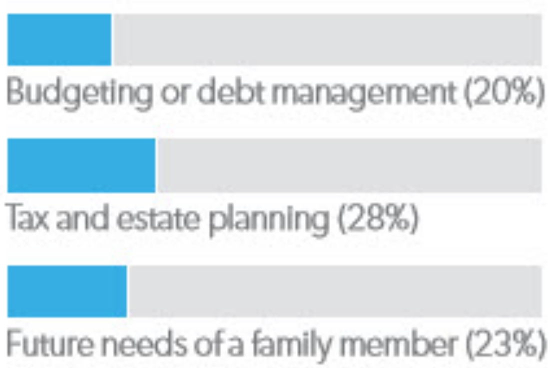
While most advised investors have received some advice from their advisors on important investment topics, in many cases basic topics are not addressed in the advice that is provided. For example:



43% of advised investors did not agree that their advisor had provided them with educational advice about financial concepts.



31% were unable to say their advisor had ever spoken to them about planning for financial goals such as retirement, education or buying a home.



Only a small minority reported they'd received advice about budgeting or debt management (20%), tax and estate planning (28%), or planning for the future needs of a family member (23%).

Also, duration of this communication from advisors appears to be quite limited in many cases:

49% of mass-market investors said their advisor spent less than an hour, in total, communicating with them during the past year or didn't communicate at all.

68% of small investors and 44% of mass-affluent investors said the same thing.

So, there are investors seeking and actually paying for financial advice, said advisors are to advise investors on various financial matters, but investors feel they are not getting any value.

Yikes.

How you can get started

Ultimately nobody cares more about your money than you do (except maybe me, since I have this blog and your dedicated readership)!

How can you figure out if self-directed investing is right for you?

I believe to have proficiency in anything in life, including the job you might do today, success comes from the right mix of personal traits and behaviours.

You need in no particular order of importance:

1. The desire to learn and continue to learn.
2. Knowledge in the subject matter.
3. Time.
4. The right temperament.

With reams of financial information available, I would argue there is almost no excuse not to understand the basic elements that comprise 80,000+ personal finance books. I'll summarize my book for you:

- **Book introduction: Spend less than you make.**
- **Chapter 1: Save and invest the difference. Invest in mostly low-cost products. Consider diversifying your investments.**

- **Chapter 2: Avoid active trading. Celebrate falling stock prices – buy more when stocks fall in price.**
- **Chapter 3: Disaster-proof your life with insurance, where needed, to cover a catastrophic loss.**
- **Book conclusion: Rinse and repeat for the next 30-40 years.**

Please buy my book!

That's the basics within 80,000+ personal finance books in just five bullets.

[In fact, you probably don't need any more money advice.]

Why DIY is *not* for everyone

While investing seems simple it is far from easy.

With the services of a fee-only advisor or robo-advisor (make sure you read about my partnership here with ModernAdvisor!) investing is easier than ever. That said, you might still want to go it alone. Here are some key questions to ask yourself from my perspective:

1. Do you have an intrinsic interest in personal finance or investing?
2. Do you enjoy reading financial media articles or learning about investing?
3. Do you like tracking information or a budget? **On that note, I believe this is one of the best ways to budget.**

If yes to all three questions, you might be a candidate for DIY investing.

Independent thinking, critical thinking, some analytical skills, patience and commitment are just some of the valuable traits all successful investors have. If all of these traits don't apply to you in spades, not to worry, there are some simplified alternatives to become your own DIY ETF or stock investor.

Simplified paths for DIY investing

Here are some options (I'm a fan of) to consider when starting or renewing your investing journey.

1. **Tangerine Funds**
   Why? For a fee just over 1% (that's costing you $100 per year on every $10,000 you have invested), Tangerine offers a variety of funds to get started at costs far lower than some big bank mutual funds.

2. **Mawer Balanced Fund**
   Why? For a slightly lower fee, the Mawer Balanced Fund is an impressive but simple all-in-one mutual fund solution to get started with investing.

3. **Robo-Advisor**
Why? For even lower fees (roughly $50 per year on every $10,000 invested), robo-advisor firms can offer a very simple investing solution for investors who need help to train their investing brain OR for investors who want a more hands-off approach to investing but want the confidence their money is being systematically managed.

By putting investors' money into high-quality, low-cost, indexed Exchange Traded Funds (ETFs) they will create a systematic approach to investment management for you that entirely removes your emotions and opinions from the investment decision making process. If the market goes up or goes down, there is no major knee-jerk reaction by the robo-firm (nor you). Decisions are therefore made based on well-defined models and processes that do not leave any room for subjective interpretations. As long as the inputs into the system are the same, the outcome will be the same *regardless.*

As one robo-advisor CEO once explained to me:

"It's paternalistic and it works – just like removing your potato chips from your house works if you are trying to eat healthy."

4. **TD Bank e-Series Funds**
Why? I don't have a partnership (yet) with TD but another simple solution is to own TD e-series funds. Some Canadian big banks (like TD) have been in the space of offering low-cost mutual funds or their own in-house ETFs for some time. TD e-funds happen to be some of the lowest cost solutions available.

5. **All-In-One Exchange Traded Funds (ETFs)**
Why?

I wrote an extensive post about various the Best all-in-one ETFs here.

The Best all-in-one Exchange Traded Funds
After opening your discount brokerage account:

1. Buy these funds
2. Continue to add to them over time – and these funds will do all the re-balancing work for you.

That's essentially it.

Why I became *My Own Advisor* – and why you might want to too

I became interested in personal finance, probably in my early 20s, because I had the aforementioned interest in this craft. Reading *The Wealthy Barber* cover to cover a few times over was definitely the trigger for me. David Chilton's tale was extremely well-written and inspiring. I figured if Roy the Barber could amass that much wealth then maybe I could too.

You can find a list of books I've enjoyed and learned from over the years here.

However, I made a number of money mistakes over the years.

Thankfully, I kept my independent thinking along with my patience intact. The biggest trigger for me to change my investing ways came after my portfolio partially crashed in early 2000s, as part of the tech crash. I bought books and started to read, lots. And I kept reading.

What I found out was not really that surprising but enough facts that gave me a kick-in-the ass to change my ways in the coming years. I learned these keys:

1. **Active money management fees will steal from your portfolio value**

For every $25,000 invested in a fund product that charges around 2% in fees, you're kissing $500 per year goodbye. That might not sound like much but keep paying that 2% every year for another 9 years. A decade in high cost funds would cost $6,400 to buy and hold. **High fees steal money from your portfolio value.**

2. **Ownership is important**
Contrary to what some financial institutions may advertise ***I am not richer than I think*** **and I need think for myself in order to become wealthy**. This means taking ownership over my financial plan and clearly understanding the products I am investing in and the risks associated with them. This also means setting up some goals and working towards them. They include simple things like having some financial discipline to consistently pay down my mortgage and avoiding major purchases on credit.

3. **Investing is a get wealthy eventually journey**
Time is the market is my friend. Keeping a modest to high savings rate is my friend. Sticking with my plan is yet another friend. Striving to chase hot stocks or penny stocks or other flash-in-the-pan investments (e.g., pot stocks) is an enemy.

Even financial pros have pros

In my years of running this blog, I've learned that even financial pros have pros they lean on. Accountants sometimes have fellow accountants to provide a sober second thought on taxation issues. Lawyers have other lawyers to discuss complex cross-border subjects with. Certified financial planners hire a fee-only advisor now and then to go over their blind spots.

None of us know what we don't know.

I've had the pleasure of working with a few advice-only planners on this site and I'm happy to bring back Steve Bridge, a CFP from Vancouver for his detailed thoughts on this subject. Steve works as an advice-only financial planner with Money Coaches Canada (no affiliation with My Own Advisor). You can find him on that site for his services and you can follow him often on Twitter like I do at @SteveMoneyCoach.

Welcome back Steve!

Steve, why is managing your own portfolio potentially a good idea? What traits might the DIY investor approach be suitable for?

Good to be back Mark!

Two reasons that managing your own portfolio is a good idea are:

- *You have control over your money. No one cares more about your money than you do!*
- *Lower fees. The compounding effect of investment fees can be devastating over the long-term. Because the effects are essentially invisible, to your points above, you may never know that you could have retired a few years earlier, spent more during your retirement, or left a few hundred thousand more to your kids, if not for the amount lost to fees over the years. Choosing a low-cost diversified index portfolio can be done for a 0.25% Management Expense Ratio (MER).*

Further to your points above, traits of a good DIY investor include:

- *The time and energy to devote to this activity. No matter how much we think someone **should** learn about and do their own investing, the reality is not everyone wants to.*
- *A basic to medium amount of knowledge about investing (what's an index fund, how RRSPs work, etc.)*
- *Being okay with keeping it simple. Investing does not have to be hard or complicated (KISS)*
- *Resisting the urge to tinker. As Warren Buffett said, "Investing should be dull. It shouldn't be exciting. Investing should be more like watching paint dry or grass grow. If you want excitement, take $800 and*

go to Las Vegas… It is not easy to get rich in Las Vegas, at Churchill Downs, or at the local Merrill Lynch office."

One of my favourite quotes: "An investment portfolio is like a bar of soap: The more you touch/handle it, the smaller it gets" – Unknown

Love that quote too. Why does DIY investing not work for everyone? What challenges do you see in DIY investing?

By my estimates, only around 5% to 10% of people are cut out to be good self-directed investors, because there is so much that goes into it. This includes:

- *Choosing which investments to buy and making sure you understand those investments, (i.e., not buying something because a website, the herd, or your brother-in-law said to)*
- *Being technically able to open a self-directed brokerage account and to place a trade*
- *Having the time, interest, and energy to devote to investing*
- *Understanding how much you can afford to invest, how much you* ***need*** *to invest, and in which accounts to invest in (and how much to put in which account (RRSP, TFSA, non-registered, corporate) based on your specific situation*
- *Having the discipline and mettle to rebalance once or twice a year or when investments deviate from your target allocation (which may involve selling winners and buying losers)*
- *Having the temperament to not sell (and in fact, buy) during market drops (the 2008/2009 crash and subsequent withdrawals proved the vast majority of investors cannot do this)*
- *In retirement, determining the best order, which account, and how much to take from your accounts (this needs its own post!)*

Investing blindly for the sake of investing doesn't make sense. You need an end goal and a plan ***first*** *in order to have a proper investment plan. A few of the questions that need to be answered prior to investing are:*

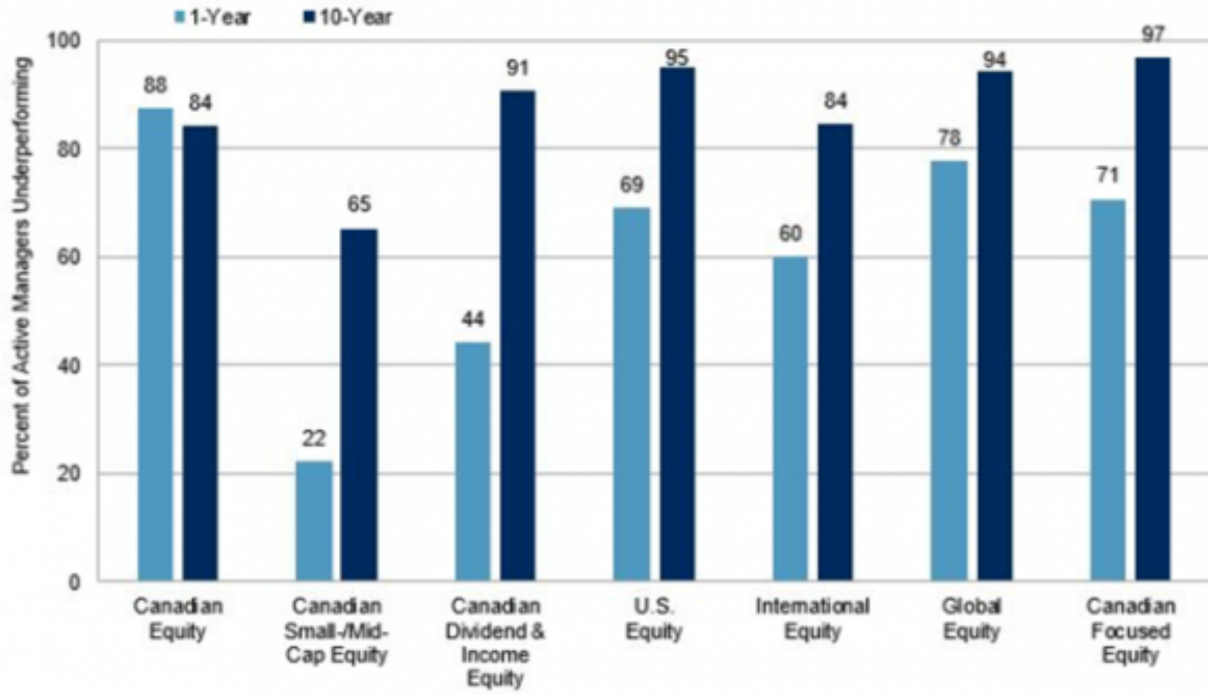
- *Why are you investing?*
- *What is your target retirement spending goal?*
- *What are your projected sources of income in retirement?*
- *How much do you need to invest?*
- *What is your starting point?*
- *Do you have a pension?*
- *What is your time horizon?*
- *Will you receive an inheritance?*

Investing is ***never*** *the first thing I work on with my clients. The investment piece of a financial plan is like the last four pieces of a 500-piece jigsaw puzzle – once the other pieces are in place (goals, cash flow, retirement planning, tax planning), the investment strategy (asset allocation, implementation, etc.) is pretty straightforward.*

The fight between active and passive investing gets lots of debate. Do you believe in any active money management, even 5% or 10% of a portfolio value? Why or why not?

Mark, there is nothing wrong with allocating a small percentage (5% to 10%) of a portfolio to do some active investing. It is certainly more exciting, and who knows, you may hit a home run and pick that next great stock, but the reality is that study after study shows that passive management beats active management, over almost any time period. Here is a chart showing one- and ten-year underperformance of actively managed mutual funds in Canada:

Exhibit 1: Continued Long-Term Underperformance of Canadian Equity Funds



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2020. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

And these are supposed to be the best and brightest when it comes to picking stocks. If trained professionals doing this full-time with expensive software can't outperform an index, what makes me think I can?

There are other considerations when comes to active investing, and one that I'll touch briefly on is whether or not you have a defined benefit (DB) pension plan. Those with a DB plan can be a little riskier, as they have this guaranteed income source to fall back on in retirement. If they mess up their investments, it's not as big a deal as for someone without. For someone like me, my financial independence (based on my investing success) sits squarely on my shoulders. If I mess up my investments, the stakes are higher.

Very fair. Finally Steve, I got this reader comment/question. Thoughts on how to approach estate planning for these individuals who no longer can DIY invest? What options might they have?

See excerpt from a reader, adapted only slightly for the site:

Hi Mark,

I have been following you for years, learned a lot from your investing plan and I want to thank you for all your good work. I have achieved financial independence because of you.

I am working part time now just because it provides balance in my life and I feel productive even at 65.

I would like to mention that « decumulation in retirement » is a subject that is not talked about much and I am looking forward to your articles regarding that subject.

Also, another subject that isn't talked about is when you are no longer able to manage your own DIY portfolio because of health issues. Not sure how others go about this.

Mark, how would you go about this? Either if confronted or simply you find there is increased difficulty of managing your portfolio as you are aging?

Thank you for your time.

Steve to Mark – What a great letter!

That's a very nice tribute to all the work you have done helping Canadians make good financial decisions. Very well deserved.

*I agree with your reader when it comes to decumulation strategy in retirement not getting the coverage it deserves. The impact of how much to draw from which account and when has a **huge** impact on retirement spending – done right you end up with a lot more than if done poorly. A good financial planner will go over this in great detail with retiree clients.*

Managing investments due to health issues or cognitive decline is an extremely pertinent topic as well (your reader hit a lot of excellent points in his letter!). There can be 'levels' of involvement in managing your own investments, ranging from total DIY to an all-in-one fund, to a robo-advisor and then to the point of naming a trusted individual power of attorney to manage your investments. Making sure you are on the same page with whomever you choose to appoint when it comes to your investment philosophy, asset allocation, etc. will be very important. I advise thinking about and implementing this as far ahead of time as possible (this can apply to yourself, elderly parents, etc.).

Should you become a DIY investor summary

In closing, your approach to investing will likely revolve around the time you wish to spend on the subject matter, the interest in the subject matter, and what your goals with investing are.

While DIY investing and becoming your own advisor like I have done might have some challenges, I suspect the passionate DIY investor will embrace these challenges as opportunities as they put their best mix of personal traits, knowledge and skills, and energy forward.

So, what say you? Are you ready to become a DIY investor? Do tell me what you're curious about and what you'd like to know!