



What Everyone Should Know about Saving and Investing: The Role of CFA Institute

27 October 2006

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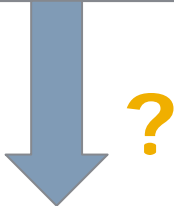

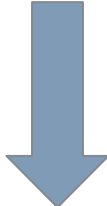
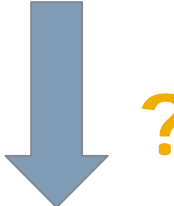
- 1. An economic hole in education now means an economic hole in retirement later.**
- 2. Book of Proverbs: “Where there is no advisor, the people perish.”***
- 3. Unreasonable expectations equal unreasonable outcomes.**
- 4. If all else fails, government will be the residual owner of the problem. We all pay.**

*King James Bible, Proverbs (29:18): “Where there is no vision, the people perish.”

- **First investor formation, then investor education.**
- **Lack of basic education leads to lack of participation.**
 - ▶ 33 percent fail to participate in plans.
 - ▶ 20 percent of those eligible for employer matching fail to contribute enough to get full matching.
 - ▶ 25 percent hold half or more of their assets in employer stock.

- **How much can the average American investor handle?**
 - ▶ Save, Plan, Diversify, Know Costs, Plan Again.
- **Buyer Beware (i.e. understand incentive economics).**
 - ▶ Need to know the difference between fiduciary responsibility and salesmanship.

Does the Institutional Model Fit?

Institutional Investor		Retirement Investor		Individual Investor
				
Committee of Professionals		Government (Savings Schemes)		Self or Advisor
				
Manager		Manager		Manager



Customization

- ▶ Investment policy statement
- ▶ Complex wealth-transfer strategies
- ▶ Tax efficiency
- ▶ “Soft” products and services

Asset Allocation

- ▶ Complex investment strategies
- ▶ Tax efficiency



Performance Measurement/ Presentation

- ▶ Valuing alternatives
- ▶ Selecting benchmarks

Objective, non-conflicted knowledge/advice

- ▶ Set reasonable expectations
- ▶ Buyer beware
- ▶ Negotiate best fees
- ▶ Screen/replace investment managers & other vendors
- ▶ Avoid conflicts of interest
- ▶ Vote proxies & perform governance duties

- ▶ A small-numbers activity.
- ▶ Long-term real returns, all things being equal, are governed by the ability of the global labor force to produce goods and services.
- ▶ Trend: 3-4% real global economic growth translates into 3-4% real post-tax return for the global capital market.
- ▶ By diversifying globally and through asset classes, one can have a claim on this global growth, diversifying away idiosyncratic risk.

But there is evidence that most of that real growth potential is punted away:

- ▶ Asset management fees
- ▶ Legal fees
- ▶ Accounting fees
- ▶ Commissions
- ▶ Bandwagon and hot dot timing
- ▶ Being sold as opposed to advised
- ▶ Advertisements that say “You too can trade [away your retirement assets]”

- You have \$50k in a retirement account, paying 200 bps, or \$1000, in fees.
 - You are a person that will forgo spending \$100 on yourself at the mall.
 - You don't know you are spending \$1000 on fees.
- Economics of Cost: Fees should be so transparent that individuals feel they are writing out a check from a checkbook where they can compare and evaluate against all other expenditures and make a wise choice.**

- **Long-term advocate for investors of all types.**
- **Creating a cadre of investment professionals who meet a high standard of ethical awareness and objective investment knowledge.**
 - ▶ Body of Knowledge
 - ▶ Code and Standards
 - ▶ Entry requirements
 - ▶ Life-long learning

86,000+ members worldwide who must:

- ▶ Act with integrity, competence, diligence, and respect
- ▶ Place interest of the client before own personal interest
- ▶ Use reasonable care and exercise independent professional judgment
- ▶ Practice in a professional and ethical manner
- ▶ Promote the integrity of, and uphold the rules governing, capital markets
- ▶ Maintain and improve professional competence

- Long history of building a “body of knowledge.” Working to define a body of knowledge specifically for private wealth. Example: *Investment Management for Taxable Private Investors*, a Research Foundation monograph.
- Long history of a testing competency for large populations; developing an investor IQ test capability for individuals.
- A membership that likely would support resource deployment from their dues for recognition that they are professionals in the true sense.
- 86,000 members (120,000 candidates) and 134 societies in 55 countries. Members who have a volunteer history – a potential army to deliver content.

If all else fails, the four fates await us:

- ▶ Compound ignorance.
- ▶ Irrational expectations and irrational outcomes.
- ▶ Individual blindness and a lack of advisor vision.
- ▶ Collective punishment: a centralized government solution.