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Your retirement depends on how well you understand your portfolio now

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Last week I was talking with a close friend and adviser about how individual Canadians invest. I told her a story about another friend of mine, who I'll call Jake.

Jake received a call from his bank branch pointing out that his account had over $50,000 in it. It was suggested that he think about investing the money. Even though Jake has an adviser he's happy with, he agreed to put $50,000 into one of the bank's mutual funds. It was easy to do and he thought it had to earn more than what the bank was paying.

I heard about this nine months later. The fund was down, Jake wasn't happy, and he didn't really know much about the fund or why he owned it.

Having heard the story, my adviser friend asked: If you could tell people like Jake one thing, what would it be?

I didn't hesitate. I would say, or more likely yell: THIS STUFF IS IMPORTANT! It's all about your standard of living in the last third of your life. It's about travelling versus watching Netflix in your basement. It's about Arizona in February instead of shovelling snow at 30 below. It's about helping your kids with their down payment, or not.

How you invest, and how much you invest, will determine your income after your regular paycheque stops. This is not something you want to be casual about or disinterested in. The size of your retirement paycheque (hopefully 30 years of paycheques), is way more important that your cellphone plan, Candy Crush game or Kanye West's tweets.

In the current Canadian context, your investment portfolio may not appear to have as much impact on your future net worth as the management of your home and mortgage, but that won't always be the case. Indeed, your financial assets will take on added importance if real estate prices go sideways for a decade, let alone if they go down substantially.

And beyond the relative dollar amounts (equity in your home versus RRSPs), the diversification benefit of a well-managed portfolio is important. It's never advisable to base your retirement on one asset, namely your home.

Of course, it is difficult for people like Jake to get too excited about something that's still decades away, but the notion that this investing stuff is for people over 60 is misguided. Wealth is built with returns and time. Add them together and you get the power of compounding – i.e. generating returns on your past returns, not only from your original investment. In other words, what you do now will have an outsized impact on your retirement.

And while it's hard to get interested in something that is a long way off, especially with all the demands on your financial resources, it's even harder when there's always a reason why the market isn’t going up any time soon. Unfortunately, investment returns are totally unpredictable. We don’t know when they’ll come, so procrastinating is effectively an anti-compounding strategy.

Investors who didn’t have their assets working for them over the past six years know this all too well. Not being fully invested in bonds and stocks has severely affected their retirement situation.

Devoting time and attention to the last third of your life doesn’t mean you have to become an investment expert. It does mean you need to:

– Look at all your financial assets as one portfolio, including your GICs, TFSAs and the money you have with your brother-in-law. Every piece is important.

– Find people and a firm you want to work with for a long time.

– Develop a routine and discipline around following your portfolio and learning how it all fits together.

– Act as the boss and periodically assess the performance of your adviser(s) and fund managers.

With interest rates at 2 to 3 per cent, it’s a lock that returns are going to be lower going forward, so paying attention to your investments is more important than ever. If you don’t know more about your portfolio than your cellphone plan, you’ve got work to do.

Tom Bradley is president of Steadyhand Investment Funds Inc.