# Your Clients' 3 Biggest Problems – and One Simple Solution

*To offset the very real challenges of longevity risk, market volatility, and a long run of lower rates, Udaya Ratnayake, Vice President and Portfolio Manager at BMO Nesbitt Burns, keeps his philosophy simple, and keeps his clients focused on what matters most.*

### Coming to Terms with Longevity Risk

The greatest challenge investors face is the possibility that they could outlive their money – and it's concerning that many have yet to come to terms with this fact. I've heard people say that their grandfather passed away at 63, and that's still their frame of reference for life expectancy. Right now, a 60 or 70-year-old with a million dollars in savings still requires a growth component in their holdings. This translates to the greatest challenge *I have*: providing a reality check. It's my role to keep clients focused on the long term in a very difficult market.

One way we do this is to create portfolios that are fairly diversified across asset classes, and don't have a huge amount of volatility. The objective isn't to try to have astronomical returns, but to keep our clients from losing sleep. While markets may be unpredictable, and headlines create chaos, we control what we can, like selecting strong underlying securities. In fact, when I buy a stock I'm often more interested in the potential downside.

**The reality for all Advisors is that people don't like losing money. Period. It's difficult to say to a client, "look, the index is down 20% and you're only down 10%."**

To me, the worst thing you can do is subject a client to the kind of bumpy ride that instils panic, and makes them consider pulling money out *in a bad market environment*. That situation is of grave concern today, when, for example, a client nearing retirement has another 30 years to go – and the costs of healthcare and senior living accommodation continue to escalate. Their money simply won't last. That's a legitimate worry, and why it's necessary to keep investors' sights firmly fixed beyond the distraction of what's happening this month, or next.

### Staying Flexible

The market crash of 2009 crystalized my desire to have greater control – and flexibility – both in terms of investment decisions and portfolio customization. So, I started transitioning to more of a fee-based, discretionary model. Today, nearly half of the families and private corporations in my practice entrust me as their personal portfolio manager. Another layer of flexibility for me – *and my clients* – is that my firm provides the latitude to utilize various platforms, and not have to pigeonhole investors into a particular style or strategy. Clients get to choose how their money is managed.

Within the BMO Nesbitt Burns' Managed Portfolio Account Program – a discretionary service offering – I run a balanced platform, and adjust the asset mix according to client need. For example, a 40-year-old is generally going to require more of an equity component than a 70-year-old. I do most of the North American stock selection, based on world-class investment research from my firm, other providers, BMO Capital Markets, and anything else I can get my hands on that will inform the decisions I make on behalf of clients. Having a Masters in economics and a CFA designation helps me to analyze a company's balance sheet to try to understand possible risks.

Conversely, I won't get into anything I can't follow and haven't fully researched. I wouldn't buy an individual Australian stock because I'm not there on the ground, reading the local morning paper. If I want to invest in the UK or have more European, Japanese or emerging market exposure, I'd use either a mutual fund or ETF to fulfill the need. My philosophy is to do what I do best, and similarly rely on specialists to do what they do best, like navigate today's international credit markets.

## There are two challenges in fixed income: if rates go up, and long duration bonds become cheaper, you lose value. If credit quality comes down, you lose there too.

### Fixed Income Challenges

Fixed income has been a challenge for Advisors, not contributing much toward overall return in a balanced portfolio for the past several years. Looking ahead, I'm also wary of political and other macro-type events beyond our control that can drive volatility in the equity markets, and impact interest rates. If rates go up and negatively affect long duration bonds, we'd lose money there. Such events could also have a sort of weakening effect on credit quality.

Overall, it's important to protect client portfolios right now – to be tactical and strategic, and have a protective mechanism as a hedge against weakening credit, and losing on duration. And then there's the matter of scale. If you're creating a fixed income portfolio, especially using corporate bonds, you need to diversify to avoid issuer risk, and that's very challenging for any Advisory team. We'd be spending more time than is feasible.

Given the elements of risk, and the complexity of finding both stability and an attractive yield, we turn to proven solutions like BMO AM Global Absolute Return Bond Fund. It's very low duration, and is unconstrained, with flexibility in terms of what they do and where they go. That gives me a sense of comfort, particularly in the face of unstable markets.

### Pretty Powerful Stuff

I'm fortunate in that some of my clients have placed their trust in me for over 20 years. I think that kind of loyalty is largely a reflection of my commitment and fiduciary mindset: they know I'll do the best I can for them in any given circumstance, and that I genuinely put their interests before my own, or that of my firm. I have a great team and colleagues to share ideas with, which helps all of us add value to our client relationships.

One thing I've realized over time is that I work best with clients who share a similar outlook. I'm fairly conservative in terms of my approach, and don't like to be leveraged. People with this same 'risk profile' are a good fit. In fact, if I met a prospect today who said they wanted to achieve a return on investment that I believe is unrealistic, I'd encourage them to find another Advisor.

I don't view clients as "accounts;" I see individuals with tangible goals. I know that their money *means something* to them. And as an Advisor, I'm in the unique position of being able to witness the end result of what their wealth helps to achieve. I've been invited to my clients' kids graduation ceremonies, weddings, memorials, new homes, and more. I know my clients' children *and* grandchildren. That's pretty powerful stuff.

When all is said and done, this is not a very complicated business. Solving today's problems, and the unforeseen challenges of tomorrow, is entirely dependent on earning trust, and creating deep, personal relationships with your clients. While markets, solutions, and practices evolve, that's never going to change.

**Speak with your BMO Global Asset Management Regional Sales Representative about our innovative fixed income solutions, including BMO AM Global Absolute Return Bond Fund, BMO Global Multi-Sector Bond Fund, and BMO Crossover Bond Fund.**

**BMO AM Global Absolute Return Bond Fund** uses an innovative, unconstrained approach, with the flexibility to reduce duration or even make it negative, and move to geographies, sectors or securities that won't be under pressure from either falling prices in corporate credit, or rising yields.


### Udaya Ratnayake

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Udaya is a Vice President and Portfolio Manager at BMO Nesbitt Burns. He has been with the company since 1994, managing over $300 million dollars in assets. He has offices in mid-town Toronto, as well as in the financial district of downtown Toronto.

Udaya holds a Bachelor of Arts (Honours with distinction) from Concordia University, a Masters in Economics from the University of Toronto, and the Chartered Financial Analyst designation (CFA).

Udaya lives with his family in Toronto. In his spare time, he enjoys travel, golf, and skiing.

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