

Newsletter August 28, 2023

What if John is hit by a bus? The solution.

Hi everyone:

“Continuity: The industry usually refers to ‘succession planning’ but my clients are more blunt--asking ‘what happens to my investment accounts if John is hit by a bus or decides to retire’. I had thought that in a crisis, NBIN would step in and find an alternative Portfolio Manager (PM), but they don’t because of liability issues; clients are simply ‘cut loose’. As the business has grown substantially, it is time to protect and provide for our clients through a ‘continuity plan’ – in other words to find a larger firm that I can trust to ultimately manage both my clients’ financial assets as well as my own and Christine’s. Fortunately, I have found a solution. Our new partner is R N Croft Financial Group Inc. (CFG).

Several firms have approached me over the last few years to ‘sell my book’ at J.C. Hood Investment Counsel Inc. and be summarily retired, slinking towards the exits but I regard this as an abrogation of duty to my clients. What I have sought is a partner with larger administrative and compliance resources, with whom I would continue to be part of the business that I enjoy – dealing with clients and managing your portfolios – while free from many administration tasks and the relentless encroachment of regulation.

This transition would last for three or more years as I integrate a younger PM who would eventually take over and, in the interim, provide us with backup and support. I want to emphasize that I am definitely not retiring nor do I have any major health issues. I still go boxing twice/weekly but my photo and date of birth on my driver’s license are less than alluring!

Croft Financial Group is headed by Richard Croft who I have known for nearly 25 years. In fact, I was going to work for Richard in 2000 but decided instead to go out on my own. Croft Financial Group has a growing team of more than twenty people, of whom more than half are registered PMs, APMs and analysts. CFG’s portfolio managers, soon including myself, are also part of the firm’s Investment Management Review Committee.

While CFG has a broad range of investment mandates on its platform, there is no intent to change the construction of your portfolio as a result of my transition – your investments will continue to be managed as individual accounts by myself, not pooled. CFG also deals with NBIN so your accounts and performance records will transfer over intact.

As I learned from my father, customer service is everything. As always, if you want to talk about your portfolio, you do not wait two days for a callback from your advisor; you continue to call me directly. My rule of thumb is that as soon as I see a client email or call, I endeavour to respond within ten minutes. That does not mean the matter is resolved within ten minutes, but it means I am on top of it. This will not change, but I will now have the additional support needed to resolve issues quicker, and perhaps better.

I have already selected my partner at CFG: his name is **Richard Orrell** who has become a friend and neighbour, living just three blocks away so its easy for him to drop by to meet clients. Christine met Orrell as a member of her dog walking group. Christine knows that I like Richard Croft and when Orrell said he worked for CFG, she asked him to come by and meet me, and that is how the continuity planning began to

take shape. Orrell is 43, married with two daughters and he graduated from the University of Waterloo with a math degree in 2003. He has worked in the financial industry for twenty years as an advisor/retirement planner and hedge fund trader but with CFG he made the move to the investment management side of the business rather than sales. We look at markets in a similar way, using ETFs as a low-cost alternative to bank pools and mutual funds. He also has a better appreciation of more technical applications in portfolio management, which I look forward to.

CFG also has experienced staff who run 'back office' administration and a Chief Compliance Officer, along with their own dedicated team at NBIN to deal with their clients; and now the team includes financial planners, as well as insurance and tax specialists.

Further, **CFG has the resources to offer estate and retirement plans** that many of you have asked about as well as financial planning for our younger clients or clients' children, including RESPs. CFG also has access to professional tax planning and tax filing services should you wish to consider this.

Fees: This portfolio management and administrative support comes at a price. J.C. Hood's fees, which at 0.80% to 1.00% p.a. have been among the lowest in the industry and not changed in 23 years. Some of you have questioned why we have kept our fees so low. The answer is simply because we could. Operating from our home, we have had no office leases, commuting costs and we have had no administrative employees. However, our business has grown over the years so that additional administrative support, a compliance/regulation officer and PM backup is now a necessity, which I'm sure you can understand.

As you know, our fees have always been transparent; and after October 31st our fees for most clients will rise by 0.25%. This will cover the cost of administration, compliance/regulation and PM support. I should mention that to make this deal work, I am selling my shares of J. C. Hood to CFG as well as taking a significant income cut.

In detail, after October 31st for investment portfolios up to \$1M, our annual fees will increase from 1.00% to 1.25% of total assets; our fees will increase from 0.80% to 1.05% on investment portfolios up to \$3M; from 0.80% to 0.90% on investment portfolios up to \$5M; and relationships over \$5M will be negotiated. These fee tiers are based upon combined family assets not individual accounts. Offsetting this increase somewhat, any transaction fees will be at no cost whatsoever. The only other change is that where JCH calculates fees quarterly in arrears, CFG does so monthly.

Newsletter and Continuity: I will continue to email my Newsletter, and with CFG undertaking much administration and compliance, will be able to compose more often. As you know, I enjoy casting stones at feckless politicians and egregious investment industry practices; this will continue.

In fact, my hope is that you will notice very little change in the manner in which we do business together. I am reluctant to use the term 'seamless transition' but there is very little you will need to do. You will need to sign a new investment management agreement (CFG's Managed Investment Account Agreement or MIAA) with the new fees. Their MIAA is somewhat 'fatter' than my IMA, as they are a larger company with more services, but we will walk you through the details. Note that since CFG is also with NBIN, we will not have to redo all your account documents, as they will simply be transferred intact. We will send out CFG's MIAAs shortly and I look forward to reviewing them with you.

While I believe I am transitioning to CFG for the right reasons, I would highlight that the transition plan involves CFG purchasing the shares of J. C. Hood Investment Counsel Inc. In addition, the amount of compensation I will receive as a CFG PM is partially tied to my clients' decisions to transition their accounts to CFG. Since it is beneficial to Christine and I to encourage you to make the move, the regulators consider this a conflict of interest and, as such, I am disclosing this information to you for your consideration as part

of the decision. This conflict is partially addressed by the fact that CFG, as your new licensed portfolio manager, has an obligation to determine that the services it provides are suitable for you and in your best interest. Additionally, the choice to transition with me to CFG or not is ultimately yours to make. Clients not wishing to make the transition with me to CFG will need to find another adviser.

Based upon my conversations with several clients, everyone seems on board with the transition so far and, given that many of these client relationships have gone on for many years, I am very thankful for their continued confidence. With the support of CFG's team and with Orrell supporting me for both his market experience and client insights I will be able to focus on the market, which is my muse, and I look forward to the opportunity to continue to be your investment adviser.

If you wish to discuss or have any questions, give me a call.

John

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