Vanguard®

Learn about how your advisor adds value

Investor education

Many investors find it increasingly difficult to invest on their own, particularly as they amass wealth and their finances become more complex. That's when professional financial advice can help. An experienced financial advisor provides customized portfolio management and discipline, which can better position you to reach your long-term investment objectives.

A skilled financial advisor has the training and insight to:

- Understand your goals for investing.
- Help create an investment strategy that can meet your short- and long-term needs.
- Make sense of an array of investment vehicles and determine how they fit into your portfolio.
- Keep you focused on your objectives.
- Monitor your portfolio during all types of markets.

The importance of an investment strategy

A carefully planned investment strategy is a practical way that you and your financial advisor can make sure that you maintain the direction and discipline that you need to reach your investment goals.

The first step in creating an investment strategy is to work with your financial advisor to understand what you want to accomplish with your portfolio. You and your financial advisor will need to determine your investment goals, risk tolerance and time horizon.

Periodically, your advisor will revisit your investment strategy to ensure that your portfolio is on track and to make any necessary adjustments.

Understanding your investment philosophy

With your financial advisor, you'll also define your investment philosophy. Your advisor will help you identify your attitude toward investment risk, asset allocation and diversification, trading and investment costs. Establishing your investment philosophy will help guide the decisions you and your advisor make about your portfolio.

Asset allocation

Asset allocation refers to the mix of your investment dollars among various asset classes, such as cash, bonds and stocks. Asset allocation is a critical factor in determining the long-term returns of your portfolio, and it helps you and your advisor determine the appropriate trade-off between risk and return for your needs.

Your financial advisor will consider several factors when developing an asset allocation that's right for you, including:

- **Your investment goals.** Your advisor will need to understand your short and long-term objectives—for example, a home purchase, your children's education, retirement or business financing—to create an allocation that helps you reach your goals.
- **Your risk tolerance.** Do you lose sleep when the markets slide? Or do you shrug off market slides as a normal part of investing? Your financial advisor can help you understand your emotional reactions to the risks of investing and help you create a plan that suits your investment temperament.
- **Your time horizon.** For your advisor to tailor your portfolio to your goals, it's important to define your financial time horizon. A portfolio invested to finance retirement in 20 years would include a different set of investments than a portfolio intended to finance an imminent retirement. Your financial advisor will work closely with you to establish an allocation to meet your needs.
- **Diversification.** Your advisor will generally build your portfolio using a variety of asset classes to achieve a high level of diversification and long-term stability.
- **Your comfort with risk versus return.** The concept of risk/return suggests that low levels of investment risk will result in low returns, while high levels of risk will generate higher returns. Of course, there are no guarantees. Increased risk offers the possibility of higher returns, but it can also lead to bigger losses. Your advisor will help you balance the risk you're willing to accept with the investment returns you need or want.

  One risk/reward question your advisor might ask you is whether you want to invest in index or actively managed funds (or ETFs). Active funds tend to have higher expense ratios and tend to be less diversified than index funds. That combination—higher expenses and less diversification—has often contributed to lower returns for actively managed funds, resulting in an unappealing alternative with potentially more risk.[1]

Periodic rebalancing is essential

You and your advisor will decide how often to review your investment plan to make sure it stays on track to meet your short- and long-term investment goals. But remember that no particular asset allocation or mix of funds is guaranteed to meet your investment objectives or provide you with a given level of income, and diversification doesn't ensure a profit or protect against a loss in a declining market.

1 For the gross returns of an actively managed fund to differ from that of a style-matched benchmark, the composition of its portfolio must differ in some way. Often actively managed funds are not as well diversified as the benchmark, a factor that adds risk. In addition, an actively managed fund could significantly outperform its stated benchmark but it might still underperform the benchmark, a possibility referred to as "active manager risk." It's not uncommon for an index fund to fully replicate the composition and volatility of its benchmark.

Minimizing taxes and costs

Investment expenses and taxes can significantly erode the value of your portfolio. A low-cost, tax-efficient portfolio can be the foundation for long-term investment success.

The value of tax efficiency

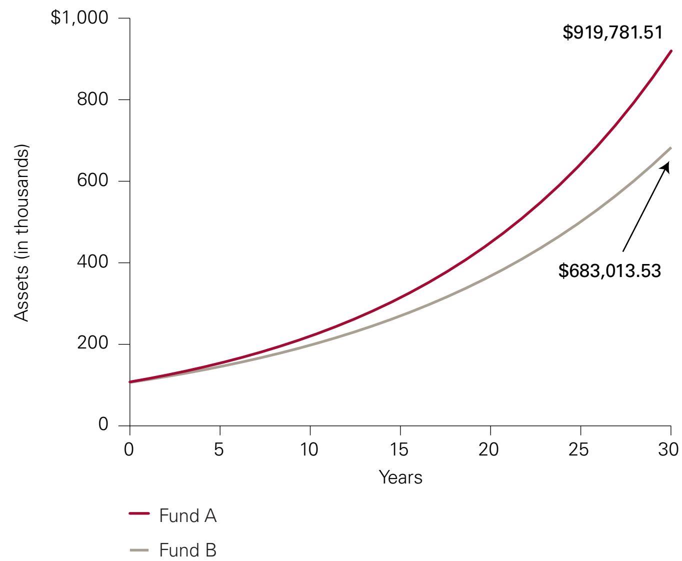
Using tax-efficient strategies is an important way that your financial advisor can add value to your portfolio. Your advisor can choose from a wide array of products—including tax-deferred and tax-efficient investments and annuities—and techniques such as managing capital gains and tax harvesting.

One of the most common ways to control taxes is through asset location. The basic approach involves investing in the right mix of regular non-registered accounts and more tax-efficient solutions such as RRSPs, TFSAs or RESPs to minimize taxes and maximize returns. Your advisor can help develop an asset location strategy based on your short- and long-term goals, income, tax bracket and asset allocation.

Costs matter

Don't underestimate the importance of investment expenses. Simply stated, costs reduce returns. **Figure 1** illustrates how costs affect returns for two funds with different expense ratios, based on a hypothetical initial investment of $100,000 in each fund. Fund A has a management expense ratio of 0.30%; Fund B's expense ratio is 1.30%. Assuming an 8% annual rate of return for 30 years, Fund A would provide more than an extra $236,000 in net returns.

Figure 1. The benefits of investing with a low-cost provider



Note: This hypothetical illustration does not represent the return on any particular investment. This illustration does not account for inflation, dividends or other distributions, taxes, transaction costs or any recurring or optional fees and/or charges beyond an MER. Investors do not pay MERs directly. MERs affect investors because they reduce returns.

Source: Vanguard.

The advantage of a comprehensive approach

Most investors think of financial advisors as investment counselors whose job is to manage their finances and help them reach their investment goals. A good financial advisor, however, will look beyond your investments to offer guidance on taxes, retirement, estate planning, insurance, education planning and more.

A financial advisor who offers such a comprehensive life-planning approach can add an enormous amount of value by guiding you through the many complicated financial challenges you'll face throughout your life.

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First Date of Publication: 31 August 2012.

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The information is neither investment and/or tax advice, nor is it tailored to the investment objectives, needs or circumstances of any individual investor.

Notes on risk: All investments, including those that seek to track indexes, are subject to risk, including the possible loss of principal. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Diversification or asset allocation does not ensure a profit or protect against a loss in a declining market. Investing in ETFs involves risk, including the risk of error in tracking the underlying index. ETFs are subject to risks similar to those of stocks. ETFs that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks.

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