Canadian Investors Need Help. Are You One of Them?

Description

Take Stock *is the Motley Fool Canada's* ***free*** *investing newsletter. To have future editions delivered directly to you, simply* ***click here now****.*

Dear Fellow Fools,

My very first job out of university was in the investment industry, manning customer service phone lines at what was then Templeton Investments. Templeton's Canadian operations have since been rolled into the much bigger **Franklin Resources** (NYSE:BEN), based out of California, but Franklin Templeton remains a player within the Canadian mutual fund scene.

Earlier this week, Franklin Templeton released its 2014 Global Investor Sentiment Survey, which contained some rather surprising findings about how our fellow citizens view the market.

Overview

The survey was completed in early January, coming off a calendar year during which the Canadian market returned 9.6%, with 7% of that gain occurring between September and December. It wasn't a huge surprise to see that 65% of the participants believe that stocks will rise in 2014.

Although that lone stat may indicate that Canadians are generally bullish, a closer look at several other points reveals a different theme. Put simply, the survey suggests that **we Canadians are a conservative, and potentially misguided, lot when it comes to investing.**

Contradicting the fact that most investors believe stocks will rise in the coming year — a favourable outlook, to be sure — is the finding that 34% plan to make *no* changes to their investment strategy this year. Additionally, twice as many survey participants said they will adopt a *more conservative* investment strategy in 2014 than said they'll adopt a more aggressive strategy.

One has to assume that a more aggressive strategy involves a higher allocation to equities, and given the participants' bullishness on the direction of the stock market, it's a surprise to see many aren't planning to act on this view.

Another bit of evidence that Canadian investors are conservative: most prefer to match the performance of the market (42%) or lose less when the market is down (38%) than beat it when it is up (20%). This is a formula ripped right out of page 1 of how to invest for relative (not absolute) performance.

To recap: Canadians have a bullish outlook for stocks, yet plan on doing nothing about it within their portfolios, and have a desire to lose less versus win more. These findings left me wondering about the guidance and advice that these participants are being provided.

As the adviser of our *Stock Advisor Canada* membership service, my goal is to **help Canadians invest better.** Let's look at three of the key takeaways from the Templeton survey …

1. Canadians are WAAAY under-invested in stocks

According to the survey, only 50% of the participants own individual stocks.

If you have money to invest and more than a five-year time horizon, you *need* to own stocks, in my view. I assume more than 50% of the participants fit this criteria. No other asset class in the history of asset classes has proven itself more worthy of your hard-earned savings.

Now, this doesn't necessarily mean that 50% of Canadians aren't exposed to equities. The thing is, we're exposed to equities via mutual funds — 73% of those surveyed own mutual funds … which happen to be one of the most expensive ways an individual investor can invest. To make the picture bleaker, only 16% of Canadians own exchange-traded funds (ETFs), which are essentially the index-tracking, low-cost equivalent of a mutual fund.

Mutual funds are quite attractive to one group in the financial industry – brokers. They are paid handsomely by the mutual fund companies for sending their client's dollars in that direction, and for the most part, it's to the detriment of the client.

It seems to me that these survey participants (and many more!) could benefit greatly from a journey into Fooldom.

2. Return expectations are WAAAY too high

Another finding was that over the next 10 years, those surveyed expect their investments to achieve an annualized return of 9.3%. No wonder 81% believe they will reach their long-term financial goals (another survey finding)!

This is unreasonable for most, especially when considered alongside some of the other findings we've presented thus far.

In our mind, the only way an investor even has a *chance* at achieving this kind of annualized return over the next decade is by owning stocks — individually or through very low-cost funds or ETFs. And even at that, evidence suggests that stocks in general could face significant headwinds over the next decade.

If we consider one valuation metric known as the cyclically adjusted price-earnings ratio (aka CAPE), we'll see that annualized returns over the 10 years aren't expected to be overly robust for the broad market.

CAPE is a form of the more commonly known price-earnings ratio, which takes the current market price and divides that by an earnings per share (EPS) reading – whether it be forward or backwards looking – to give an indication of the value of an individual stock or the overall market.

Instead of taking this point in time EPS reading, the CAPE uses a 10-year average EPS reading in the denominator. The argument is, this smooth's out any embedded cyclicality and provides a more pure representation of the market's present valuation.

Historically, the market's (and we're talking U.S. here as that's where the most historical data is available) CAPE has been as far south as single digits and as far north as the 40's. The long-term average is 15 and it currently sits at about 25.

Historically, when the CAPE has been in its upper range, which spans from 20 to 45, as it is now, the subsequent 10-year annualized returns for the market (again, U.S.) have averaged just 5.1%. This compares to the market's overall long-term annualized return of about 8% and is obviously a far cry from the 9.3% Canadian investors expect.

This is not to say that 9.3% is not possible. However, to achieve it, investors are going to have to be incredibly selective.

(Shameless plug: With two hand-picked, fully-vetted Canadian and U.S. stock recommendations per month, it doesn't get any more selective than the research we're providing members at *Stock Advisor Canada.* Check us out!)

3. Stocks are where at it's at

Finally, in another example of having the right idea, Canadian investors believe that stocks will be the best-performing asset class over the next one and 10 years. Stocks were followed by non-metal commodities and property.

We couldn't agree more – at least about the stocks! And we're here to help all Canadian investors pick the very best to ensure this belief becomes a reality!

Foolish Bottom Line

It's not entirely clear to me why Franklin Templeton produces this survey, but at the very least, it's a conversation starter — and colour us guilty for using it as exactly that.

Think about how you'd respond to similar questions — and whether your portfolio is aligned with your outlook.

And if you need a few great *selective* stock ideas, come see us at *Stock Advisor Canada*. Our product is a huge value and our interests are completely aligned with yours, in my opinion.

We'd love to have you onboard. Join us now by simply **clicking this link** — with our 30-day money-back guarantee, there's no risk to you!

Yours Foolishly,

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Disclosure: Iain Butler does not own shares in any of the companies mentioned. The Motley Fool does not own shares in any of the companies mentioned.

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