What did mom tell you about money?

BARBARA STEWART
Special to 24 Hours

In honour of Mother's Day, I would like to share some sage financial advice from the mothers of some accomplished women around the world.

Money is an enabler — the actual amount doesn't matter

The CEO of a sustainable energy company in England told me her story: "I grew up in England in very difficult circumstances; my family had to rely on the state for support. I saw my mother make decisions through these difficulties and I realized what money could do for her. If there was a choice between paying the milkman or making sure we had a good Christmas, my mother felt sure it was more important that we remember a good Christmas.

"Money is an enabler — the actual amount doesn't matter. People live very different lives on the same income, so it is most important that you determine how you want to live."

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A Board member of several Swiss firms passed along what her mom taught her: "My mother always told me to 'just be a bit smarter, more practical.' 'Don't spend more than you've got — live within your means.' When my parents got married at age 24, they had nothing; just their jobs. Both of them worked very, very hard and became extremely well-off. It paid to be smart about it. Mother would also encourage me to read newspapers. She told me to try and follow the news and look at myself in the context of what is going on in the world, to get a better understanding of my responsibilities. 'You can bury your head in the sand or you can be prepared to do anything. Really think about it.' "

Be involved in all of your financial decisions — be independent!

Advice from a mother of five in Spain: "Franco was a dictator during the years when my mother was growing up. She had some career opportunities that her father didn't allow her to pursue. Through years and years of hard work and without getting a degree, she ended up with a very influential position in a bank. I learned so much from watching my mother — she always behaved in a very independent manner. In my home, she was involved together with my father in all the financial decisions and invested in the stock exchange and real-estate opportunities. Growing up, I thought this was normal. Now I have no problem making financial decisions or understanding financial matters. They are not a mystery to me. Although I have worked in two countries as a lawyer, I am now a full-time mother with five children of my own. My husband is the main provider, but I will not take an allowance. We discuss everything pertaining to money and have a balanced relationship. Every decision is made as a team. I couldn't work any other way."

This Mother's Day, remember to give someone a message about money. You just might shape their life!

— BARBARA STEWART, CFA, is with Cumberland Private Wealth Management Inc. Visit her website at barbarastewart.ca

Girls learn a lot from the example set by their mother, including how to view finances. FOTOLIA

Follow the herd and reap the benefits of momentum

KIM INGLIS
Special to 24 Hours

We all understand that stock market fluctuations are a fact of life, but that doesn't stop investors' hearts from beating faster when markets are unsettled. Negative media reports further increase tensions, causing knee-jerk reactions and irrational behaviour. Calm investors use this to their advantage and profit from the emotional swings of the jittery.

One way to do this is to incorporate momentum investing into an overall portfolio strategy.

The basic premise of this approach is that large increases in the price of a stock will be followed by additional gains. The same applies on the flip side for declining values.

The strategy takes advantage of the impact of behavioural finance, and seeks to capitalize on the continuance of existing market trends.

Some parts of behavioural finance have been likened to jumping on the bandwagon, where investors who are considering a stock purchase use short-term performance as a confirming signal. Likewise, long-term investors look to recent performance as validation of their original thesis for purchasing the stock.

This "follow the herd" mentality, with investors buying into a rising stock simply because they don't want to lose out on a perceived opportunity, ultimately drives prices up. Momentum investors seek to profit from it.

Momentum investing isn't only about continually rolling into stocks that have been outperforming. Research shows that it can be a viable strategy for long-term investors.

Consider the Morningstar Canada Momentum Index, which comprises 30 Canadian companies and is screened for above-average returns on assets and equity, with an emphasis on upward earnings estimate revisions and technical price momentum indicators.

The index has returned 17.03% over the last 10 years. The S&P/TSX Composite index had returns of 9.66% over the same period.

Momentum investing is not without risk and is certainly not for the faint of heart.

Although some momentum portfolios have good long-term track records, this investing style tends toward high volatility.

The constant rebalancing and the frequent trading also add significantly to the fees and other costs involved, and the strategy's high turnover generally makes it inefficient from a tax perspective.

To balance the risks, investors should combine a momentum strategy with a value approach.

The two strategies are negatively correlated, generally resulting in lower volatility and superior returns over the long-term.

As well, adding value keeps investors from buying hype. Rather, they look for the momentum trends, but also ask whether they are actually solid investments.

An easy way to incorporate the strategy into a portfolio is to add exchange-traded funds into the mix.

For instance, investors could purchase the First Asset Morningstar Canada Momentum ETF (TSX: WXM) and the First Asset Morningstar Canada Value Index ETF (TSX: FXM). The former uses price momentum as a core component of its screening process while the latter screens for price-to-earnings ratios, cash-flow ratio, price-to-book value and sales and earnings estimate revisions.

Investors who decide against ETFs and instead want to try momentum investing on their own, should allocate only a small portion of their portfolio and be prepared for volatility.

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