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The Way I See It

By Sergio Simone

Could AI Set the Stage for a Market Melt-Up?

Artificial intelligence is often discussed in terms of technology companies, automation and the businesses expected to benefit most directly from its development. I believe the more important investment story may ultimately be much broader. If AI materially improves productivity across the economy, it could change the relationship between economic growth, employment, inflation and corporate profitability. Under the right conditions, that combination could create the foundation for what markets call a “melt-up.”

A market melt-up is a rapid and unusually strong rise in stock prices. It typically begins with legitimate reasons for optimism, such as stronger earnings, improving economic conditions or lower interest rates. As markets continue to rise, however, investor behaviour can become an increasingly important part of the advance. Money moves from cash into equities, confidence builds, valuations expand and investors who remained cautious begin to worry about being left behind. Eventually, momentum itself can become a significant force behind rising prices.

Artificial intelligence could potentially contribute to that environment because of its impact on productivity. Productivity is simply the amount of economic output that can be produced from a given amount of labour and capital. If AI enables employees to accomplish more in the same amount of time, companies may be able to increase revenues and output without increasing their costs at the same rate.

Consider a business that currently requires 100 employees to produce $10 million of goods or services. If AI allows those same employees to produce $12 million, the company has achieved a meaningful productivity improvement without proportionately increasing its workforce. Applied across thousands of businesses, that type of improvement could have significant economic consequences. Companies could grow faster, costs per unit of production could decline, profit margins could improve and wages could rise without necessarily producing the same degree of inflation.

This becomes particularly important when we consider the labour market. Under normal circumstances, an economy operating near full employment can eventually create inflationary pressure. Businesses competing for a limited number of workers may have to offer higher wages, and those increased labour costs are often passed along through higher prices. Central banks may then respond by maintaining higher interest rates, which can slow economic growth and place pressure on equity valuations.

AI-driven productivity has the potential to change part of that equation. If an employee becomes significantly more productive because technology allows more work to be completed in the same period of time, an employer may be able to increase compensation while still improving profitability. Economic output can expand without requiring an equivalent increase in labour costs. This could allow strong employment, rising wages and growing corporate profits to coexist with more manageable inflation than we would normally expect.

For financial markets, that would be a particularly favourable combination. Consumers who are employed and earning more generally have greater capacity to spend, while businesses benefiting from productivity gains may generate stronger earnings. If inflation remains contained, central banks may have less reason to restrict economic activity through significantly higher interest rates. Stronger corporate profits accompanied by a relatively stable interest-rate environment could provide considerable support for equity markets.

Investor positioning could then add another dimension. Large amounts of capital are regularly held outside the stock market in cash, deposits and other conservative investments. If investors gradually become convinced that AI is creating a genuine productivity transformation rather than simply another technology cycle, some of that capital could begin moving toward equities.

Initially, higher stock prices may simply reflect better earnings expectations, but a prolonged advance can eventually encourage additional participation and push valuations higher.

This is where the possibility of a melt-up emerges. Improving productivity can support earnings, full employment can support consumer spending, manageable inflation can support a favourable interest-rate environment, and stronger markets can attract additional capital. If those forces begin reinforcing one another, a fundamentally supported bull market can gradually develop the characteristics of a melt-up.

There are, of course, reasons for caution. AI adoption may progress more slowly than anticipated, productivity gains may take years to become visible across the broader economy, and markets will continue to be influenced by inflation, interest rates, geopolitics and normal economic cycles. There is also an important difference between stock prices rising because corporate earnings are improving and stock prices rising because investors are simply willing to pay more and more for those earnings. The first can be supported by fundamentals; the second eventually becomes much more difficult to sustain.

The Way I See It

I think one of the easiest mistakes to make with artificial intelligence is to view it primarily as an investment theme involving a relatively small group of technology companies. Those businesses will certainly play an important role, but I believe the larger economic opportunity may come from what happens when AI becomes embedded in the daily operations of companies throughout the economy.

The real impact may be seen when accountants, engineers, manufacturers, healthcare professionals, financial institutions, transportation companies and thousands of other businesses are able to accomplish more with the people and resources they already have. If productivity improves across a wide range of industries, the benefits could extend well beyond the companies developing the technology. Higher productivity could improve margins, support wage growth, increase economic capacity and help businesses grow without creating the same inflationary pressures that would normally accompany a strong economy.

That is why I believe the relationship between AI and full employment deserves more attention. Traditionally, an economy operating close to full employment eventually runs into capacity constraints. Labour becomes more expensive, inflation rises and interest rates tend to move higher. If AI allows the economy to produce more with the same workforce, however, some of those traditional constraints may become less restrictive. The economy's ability to grow could effectively increase.

If that proves to be the case, the investment implications could be significant. Strong employment, rising productivity, improving corporate earnings and relatively manageable inflation would create an environment that could support equity markets for an extended period. It could also encourage investors who have remained on the sidelines to gradually move capital back into the market, potentially adding momentum to an already strong advance.

I would not interpret this as a reason to chase markets or assume that valuations no longer matter. Even the strongest economic themes can eventually become overextended, and a melt-up can become dangerous when enthusiasm begins to outrun the earnings supporting it. I do believe, however, that investors should be careful about applying old assumptions to an economy that may be undergoing a meaningful change in its productive capacity.

The most important investment story of the AI era may ultimately be less about identifying which technology company wins the race and more about understanding how artificial intelligence changes the businesses that use it. If AI materially increases what the broader economy is capable of producing, its impact on markets could prove considerably larger than the technology sector alone.

What Do You Want Your Children to Become and Will Your Money Help or Hinder That

There's an interesting and scary statistic that I often tell my clients: the second generation has a 70% chance of losing the family fortune, and the third generation has a 90% chance. I tell this to clients to highlight the need to educate children about money before they inherit any of it.

In 1998, a hedge fund run by Long-Term Capital Management collapsed and nearly took out the entire global financial system. Victor Haghani, who cofounded that hedge fund, and probably knows a thing or two about vanishing money, has since written a book titled The Missing Billionaires. In this book he asks an interesting question: where did all the old money go?

Back in 1900, the US census recorded around 4,000 millionaire households. Haghani modelled what would have happened if just a quarter of those families had done reasonable, boring things with that money for the next 100 years. Things like diversifying their investments, spending reasonably, paying taxes, and avoiding other catastrophic mistakes. If this was done, by one quarter of those millionaire households, there would be roughly 16,000 billionaire households today. All descended from those original fortunes. However, Forbes counts only 735 billion households in the US in 2022, of which the vast majority were built from scratch in a single generation. In other words, almost none of billionaires today can trace their fortune back to the 4,000 millionaires of the 1900 US census. That is a shocking find.

Cornelius Vanderbilt, who died in 1877, was the richest man in the world and was worth about $100 million. This is an unimaginable amount of money for the time; his fortune surpassing the entire US Treasury. He left 95% of that fortune to one son with almost no guidance about what should happen afterwards. Generation after generation spent lavishly on mansions, parties, yachts, horses, and a “society lifestyle built for permanence”. And then slowly, over the decades, one of the greatest fortunes in history disappeared. In 1973, 120 Vanderbilt descendants gathered for a family reunion. Not one was a millionaire.

Haghani calculates that if the heirs had simply invested sensibly, paid their taxes, and spent around 2% per year of their wealth, every single descendant would be worth billions. Earning the fortune wasn’t the problem; it was keeping it and preparing the next generation to live with it.

Back to the quote above about 70% of families losing their wealth by the second generation. That statistic comes from Roy Williams and Vic Preisser, who studied more than 3,000 wealthy families. Interestingly, in the study, only 5% of failures were attributed to poor investment, tax issues, and estate planning. The overwhelming causes were breakdowns in family communication and trust, heirs who weren’t properly prepared, and the absence of a shared sense of purpose.

In other words, the biggest risk to your family’s wealth probably isn’t the stock market, the taxman, or choosing the wrong investment manager. It’s raising children who aren’t ready for money.

The Rockefellers, who are also from the same era and similar fortune as the Vanderbilts, built structures around their wealth. For example, a family office in the 19th century, education for each generation, and deep traditions around stewardship and philanthropy. The family had designed a structure that supported human capital, social capital, and financial capital. To this day, six generations later, the family remains wealthy and influential.

One of my favorite examples is the Warburtons in the UK. They own a massive bakery business with a very strict rule for family members: no one walks into a senior role. Anyone wanting in, does their stint on the bakery floor and must also have experiences outside of the family business.

Over the next 10 to 20 years, an unprecedented amount of wealth is set to be transferred to the second generation. Largely because of the wealth built by the baby boomers. Of course, estate planning matters. Taxes and trusts matter. And surely these topics will dominate the wealth conversation as baby boomers create and update their estate plans. But perhaps too much time is spent designing how to transfer the money and nowhere near enough on how to transfer the judgment that created the wealth in the first place.

To get the ball rolling, here are three things you can do now with your kids (courtesy of fellow life planner Alan Smith in the UK).

1. Tell them the story before you tell them the number. Tell them about the risks you took, the mistakes, the years when things went wrong. Tell them about your sacrifices, the luck and the people who helped you. The story of your wealth can be more important than the wealth itself. Give a man a fish and he will eat for a day…

2. Decide what the money is for. Education, homes, philanthropy, security for future generations. Write it down on one page what your family believes money is for and what it isn't.

3. Create responsibility before entitlement. Instead of handing out money, offer to match their savings. Encourage a summer job and investing their own money (not yours). Have them work outside of the family business before joining it. Money earned feels very different than money that simply appears.

How We're Helping Our Clients

At Kleinburg Private Wealth, we'll host family board-style meetings and educational sessions for the next generation of our client families. Just ask.

A Recognition We're Proud to Share

Kleinburg Private Wealth named a 2026 5-Star Advisor Team in Canada

We were very pleased to learn that **Kleinburg Private Wealth has been recognized as a 2026 5-Star Advisor Team in Canada by Wealth Professional Canada,** placing our team among a distinguished group of wealth management firms and advisory teams from across the country.

Recognition like this is meaningful to us because it reflects something we have worked hard to build over many years. As the financial lives of the families we serve have become more complex, KPW has continued to evolve beyond traditional investment management to provide more integrated advice across investment, tax, retirement, corporate and estate planning considerations.

That evolution has required us to continually raise our own expectations — to ask better questions, look beyond individual transactions and consider how each financial decision fits within a client's broader wealth picture.
We are proud of the recognition, but we also understand where it begins.

It begins with the trust our clients place in us.

To our clients, their families, our professional partners and everyone who has contributed to the growth of Kleinburg Private Wealth, thank you. We are grateful for your confidence and for the opportunity to continue earning it.

Ryan Simone
President
Kleinburg Private Wealth

By Kristina De Souza, CFP, CFDS, RHS

A.I. As a Tool, Not a Planner

A client asked me something recently that I've now heard a version of too many times: "I typed my retirement numbers into ChatGPT and it gave me an answer in seconds." This kind of rapid-fire response may lead some to question why they pay for a professional, including the planning software that comes with it. It's a fair question, and it doesn't deserve a defensive answer, but it does deserve an honest one.

ChatGPT is genuinely useful. Ask it to explain how an RRSP to RRIF conversion works, or what the difference between a TFSA and an FHSA is, or how pension income splitting works with your spouse, and it will do a solid job. It's a fast, patient tutor, and I encourage clients to use it that way. It lowers the intimidation factor of financial jargon, and a client who understands the vocabulary may have a more enjoyable planning experience. But there's a real difference between explaining a concept and planning your life. Here's what that difference actually looks like in practice.

When you ask a chatbot "can I retire at 58?", it answers the question you typed, using the assumptions you typed, which are usually a rounded, best guess version of reality. It doesn't know that your defined benefit pension has a survivor benefit election due next spring, that half your non-registered account is sitting on unrealized capital gains, that CPP and OAS timing decisions interact with your other income in ways that affect clawbacks, or that your daughter's wedding and your aging mother's care might both land in the same three year window.

Planning software, the kind we use, is built to hold your entire financial picture at once: every account (RRSP, TFSA, RRIF, non-registered, corporate if you're incorporated), every tax bracket, every goal, every "what if," linked together so that a change in one place shows its ripple effects everywhere else. That's not something you can paste into a text box. It has to be built, maintained, and updated as your life, and the tax rules actually change.

We call ourselves lifestyle financial planners because the numbers were never really the goal. The goal is the life you're trying to fund: the years you want to work part time, the year you take off to travel, the point where you stop worrying about money enough to actually enjoy it. A chatbot can run a generic retirement calculation. It can't sit with you and figure out that what you want isn't a bigger number, it's the confidence to cut back to four days a week two years from now.

That kind of planning requires an ongoing relationship, not a one time answer. It requires someone who remembers what you said about your parents' health last year, who notices when your risk tolerance conversation doesn't match your actual behavior during a market drop, and who can gently ask, "Is this goal still true, or is it just the one you wrote down three years ago?"

Good planning software doesn't just calculate a single answer. It stress tests your plan against thousands of possible market outcomes (Monte Carlo analysis), models your RRSP versus TFSA withdrawal order and the tax consequences of each choice year by year, factors in when to start CPP and OAS, and updates instantly when we change an assumption together in a meeting. A chatbot's answer is a snapshot based on whatever you told it, with no way to verify it, no audit trail, and no accountability if the assumptions were wrong. If the software we use makes an error, there are professional and regulatory standards behind it, including my obligations as an advisor registered here in Canada. If a chatbot makes an error, there's no one to call.

There's also a quieter issue: privacy. The details that make planning accurate, account numbers, balances, SIN linked government benefit estimates, family circumstances, aren't information I'd want typed into a public AI tool, especially one whose servers and privacy protections may sit outside Canada. Frankly, neither should you.

So where does that leave us? By all means, use ChatGPT to get familiar with the vocabulary of money. It's a great way to warm up before our conversations and to explore ideas you might feel hesitant to ask about. But never feel that hesitation with us. The questions that seem small or simple are often the ones that matter most, and answering them is part of what we're here to do.

Your actual plan, though—the one tied to your real life, real goals, and real consequences—still needs a human who understands your full story. Technology sharpens the numbers; the relationship sharpens the decisions. Both matter. And whenever you want to test scenarios—retiring early, adjusting CPP or OAS, buying another property, supporting a grandchild's education—bring them to your next meeting and we'll work through them properly.

Inside the 2026 Mortgage Renewal Cycle

A large group of Canadian households is moving through mortgage renewals this year under conditions very different from the ones in place when their current terms began. According to the Canada Mortgage and Housing Corporation, the volume of mortgages coming due in 2026 is lower than the 2025 peak, but the underlying arithmetic for individual borrowers is broadly similar. Two questions shape that arithmetic: what drives the change in payment, and what choices exist at the renewal date itself.

The origination gap explains most of the payment change

The defining feature of the current renewal cycle is not the level of today's rates in isolation. It is the distance between today's rates and the rates in place when the maturing mortgages were signed.

The majority of five-year fixed mortgages coming due in 2026 were originated in 2021 and 2022, when contract rates for well-qualified borrowers commonly sat between roughly 1.5% and 2.8%, according to industry reporting. Fixed-rate renewals today are being written in a range of roughly 4.4% to 4.9% at major lenders, with negotiated rates for qualified borrowers who shop actively closer to 4.2% to 4.5%. That gap of roughly 200 to 300 basis points is the source of the payment change most borrowers experience at renewal, and it exists regardless of what the Bank of Canada does at any single meeting.

The Bank of Canada's policy rate has been held at 2.25% at each decision since early 2026. Fixed mortgage rates, however, are priced primarily off the Government of Canada five-year bond yield, which reflects investor expectations for inflation and growth rather than the overnight rate directly. A hold at the policy rate therefore does not translate mechanically into lower fixed rates at renewal.

Payment increases scale with balance and origination rate

The size of the monthly payment change at renewal depends on three things: the original contract rate, the new contract rate, and the outstanding balance. Using a standard 25-year amortization and a move from a 2.0% contract rate to a 4.5% renewal rate, industry modelling illustrates the pattern: a $500,000 balance sees an increase of roughly $670 per month, while a $750,000 balance sees an increase approaching $1,000 per month. Balances above roughly $700,000 produce monthly increases above $940 in that example.

Two features of this arithmetic are worth noting. First, the payment increase is a level effect that persists across the new term, not a temporary adjustment. Second, the increase is not linear with the balance—it scales roughly in proportion—so a household with double the balance experiences roughly double the monthly change under the same rate assumptions.

Alongside the payment side, CMHC reports that the average Canadian mortgage payment in the fourth quarter of 2025 was $1,852, up from $1,784 a year earlier. That average captures a mix of new originations, renewals, and mortgages still mid-term, and the year-over-year change reflects composition as well as rate. Renewal is a decision point, not a default.

A renewal offer from an existing lender is one of several possible outcomes at maturity. The choices generally fall into a few categories.

Staying with the current lender at the offered rate is the most common path. CMHC reports that 66% of mortgage transactions in the most recent survey year were renewals. Posted renewal rates from existing lenders can sit meaningfully above the negotiated rates available to the same borrower elsewhere, with industry analysis placing the typical gap at 40 to 80 basis points.

Switching to a different federally regulated lender is easier than it was two years ago. In November 2024, the Office of the Superintendent of Financial Institutions changed the underwriting rules so that borrowers moving an uninsured mortgage between federally regulated lenders at renewal no longer need to requalify under the stress test. Since that change, uninsured mortgage switches, including other renewals and refinances, have increased 34% from the second half of 2024 to the second half of 2025.

Extending amortization is a separate lever. Insured mortgages have been permitted to carry amortizations up to 30 years since 2024, and roughly two-thirds of insured mortgages originated by chartered banks in the fourth quarter of 2025 had amortizations longer than 25 years. Extending amortization lowers the required monthly payment; it also raises the total interest paid over the life of the loan and lengthens the repayment period. Refinancing at renewal—replacing the existing mortgage with a new one at a different balance or term—remains a further option, typically pursued to consolidate other debt, fund renovations, or restructure the loan.

What the rate mix looks like now

The composition of new originations has shifted alongside the rate environment. As of February 2026, variable-rate mortgages accounted for 42% of mortgages extended at chartered banks, fixed-rate mortgages with terms of three to less than five years accounted for 35%, and traditional five-year fixed-rate mortgages accounted for 11%. Variable mortgage rates at chartered banks moved below fixed mortgage rates in the fourth quarter of 2025, the first time that had occurred since 2022. That relationship reflects the shape of the yield curve rather than a directional call on future rates, and it can reverse without a change in the overnight policy rate.

The 2026 renewal cycle is, in the end, a mechanical repricing of a specific cohort of mortgages to prevailing market rates. The scale of the change at the individual level depends on the origination rate, the current rate, and the balance. The available responses depend on the type of mortgage, the lender, and the household's broader plan. Both sides of that picture are more visible with time to look at them before the renewal date arrives.

Capital Dividend Accounts: Looking Beyond the Sales Pitch

by Sergio Simone

Capital Dividend Accounts seem to be having a moment. Increasingly, I am seeing advertisements, articles and investment or insurance strategies built around the ability of a private corporation to create CDA and ultimately distribute money to shareholders tax-free. For business owners who have spent years accumulating wealth inside a corporation, the words “tax-free dividend” understandably attract attention.

The Capital Dividend Account is indeed one of the more valuable provisions available to owners of Canadian private corporations. It is essentially a tax account that tracks certain amounts that may ultimately be distributed to Canadian-resident shareholders as capital dividends without being included in their personal income. Among the more common additions are the non-taxable portion of qualifying net capital gains, capital dividends received from other corporations and certain life insurance proceeds. A corporation must have an available CDA balance and make the appropriate election before paying a capital dividend.

What concerns me is not the increased attention being given to the CDA. Greater awareness of an important planning opportunity is generally a good thing. The concern arises when the CDA itself becomes the sales pitch and the product or transaction used to generate it receives considerably less scrutiny.

It is easy to make a strategy sound attractive by beginning at the end. Invest a certain amount, generate a capital gain, create a CDA balance and then withdraw part of the proceeds from the corporation tax-free. Presented that way, the tax-free dividend becomes the headline. What can disappear from the conversation is what had to happen economically and tax-wise to create that dividend in the first place.

A CDA does not create wealth. Nor does it make the underlying capital gain tax-free to the corporation. When a corporation realizes a capital gain, the taxable portion remains subject to the normal corporate tax rules. The CDA generally reflects the non-taxable portion of net capital gains after taking relevant capital losses into account. The fact that part of the economic gain may subsequently be distributed as a tax-free capital dividend is valuable, but it should not be confused with eliminating the tax consequences of generating the gain itself.

This distinction becomes particularly important when an investment is being recommended primarily because it may generate CDA. If an investor assumes additional investment risk, incurs substantial fees, gives up liquidity or intentionally realizes gains simply to increase the CDA, the analysis should extend well beyond the size of the prospective tax-free dividend. A tax benefit can be real and still leave the investor worse off if the underlying economics are unattractive.

The same caution should apply when life insurance is presented primarily as a CDA strategy. Corporate-owned life insurance can play an important role in estate planning, business succession, liquidity and wealth transfer, and qualifying net insurance proceeds can create a significant addition to a corporation’s CDA. However, that benefit generally arises in connection with the insurance proceeds received following death and is only one part of the overall planning analysis. Premium commitments, liquidity, policy structure, insurance need, time horizon, estate objectives and the opportunity cost of the capital all deserve consideration before the eventual CDA benefit is placed at the centre of the recommendation.

There is another reason to be cautious about treating the CDA as though it were simply a pool of tax-free money waiting to be withdrawn. The calculation is cumulative and can be affected by transactions occurring over many years. Capital losses can reduce the capital-gain component of the CDA, prior capital dividends reduce the available balance, and other adjustments can affect what is actually available at a particular point in time. The balance therefore needs to be calculated based on the corporation’s actual tax history rather than assumed from a single transaction.

Getting that calculation wrong can also be expensive. Before a capital dividend is paid, the corporation must determine its CDA balance and make the required election. If it elects to pay more than the available CDA, the excess can result in a Part III tax equal to 60% of the excessive amount, subject to certain corrective provisions. That is a significant consequence for something that is sometimes described in promotional material as though the mechanics were almost automatic.

For me, the better starting point is the corporation rather than the product. What assets does it own? What is their adjusted cost base? What unrealized gains and losses already exist? Is there an existing CDA balance that has never been identified or used? What are the shareholder's personal cash-flow requirements? Will funds eventually be required personally, retained corporately, donated, reinvested or transferred to the next generation? How do the investment, tax, estate and insurance strategies interact?

Only after those questions are understood should the discussion turn to whether a particular transaction can enhance the CDA.

This also changes the way a strategy should be measured. Rather than asking only how much CDA will be created, I believe the more meaningful question is what the shareholder and corporation will own after the transaction, compared with what they would have owned by doing nothing. The calculation should include corporate taxes, personal taxes, fees, investment returns, liquidity, financing costs where applicable, risk and the eventual amount that can actually reach the shareholder or family.

That type of comparison can sometimes reveal that a strategy promoted for its CDA benefits is genuinely compelling. In other situations, it may demonstrate that simply holding the existing investment, realizing a gain at a different time, using an existing CDA balance or pursuing an entirely different planning strategy produces a better result.

The Capital Dividend Account deserves the attention it is receiving because it can be an exceptionally valuable component of private-company planning. What it does not deserve is to be reduced to a marketing hook.

For business owners, the objective should never be to create the largest CDA possible. The objective should be to create the best overall economic outcome, with the CDA used where it naturally contributes to that result.

What Does Good Advice Really Cost?

by Sergio Simone

One of the more interesting things I have noticed over the years is that conversations about fees often change as a client's financial circumstances become more complex. Clients with relatively modest portfolios may quite reasonably spend considerable time comparing management fees, fund costs and advisory charges. Among many high-net-worth families, however, the discussion tends to be different. They still want to understand what they are paying, but the greater focus is often on what they are receiving in return. The distinction is important because fees and value, while certainly related, are not the same thing.

Financial services have become increasingly transparent, which is a positive development. Investors should know what they are paying, how their advisor is compensated and what costs are embedded in the investments they own. A fee that cannot be clearly explained or justified should invite questions. At the same time, choosing financial advice primarily on the basis of price can overlook much of what determines whether an advisory relationship ultimately proves valuable.

For an investor whose financial affairs are relatively straightforward, comparisons can be easier. If the primary service being provided is portfolio management, differences in fees are readily visible and reasonably simple to measure. As wealth grows, however, the financial picture often becomes considerably more complicated. Corporations, tax planning, estate considerations, trusts, insurance, charitable giving, business succession, investment structures, debt and family objectives may all begin to interact. At that point, evaluating an advisory relationship solely by investment performance or by comparing one management fee with another can provide a very incomplete picture.

The financial impact of a single planning decision can sometimes illustrate the difference. Properly structuring the sale of a business, recognizing an available tax opportunity, coordinating a corporate distribution, avoiding an unnecessary tax liability or identifying an estate-planning issue can potentially have consequences far greater than several years of advisory fees. The opposite is equally true. Poor advice in one of these areas can be very expensive, regardless of how little the advisor providing it happens to charge.

This may help explain why many wealthy investors approach the subject of fees somewhat differently. It is not necessarily that they care less about what they pay. In my experience, many are quite knowledgeable about their costs and what competing firms might charge. The difference is that they tend to evaluate the fee within a broader context. If an advisory relationship is helping them coordinate several professionals, identify opportunities, manage significant complexity, avoid costly mistakes and make better long-term financial decisions, they may be more interested in the value of those outcomes than in simply finding the lowest available price.

There is also a growing distinction between investment management and financial advice. Managing a diversified investment portfolio has become increasingly accessible and, in many respects, increasingly commoditized. Technology has made portfolio construction, trading, reporting and rebalancing more efficient than ever before. These services remain important, but for clients with significant wealth they increasingly represent only one part of a much larger financial relationship.

The areas that are much more difficult to commoditize tend to involve judgment. Determining whether a particular strategy should be implemented at all, deciding whether this is the appropriate year to realize a gain, assessing whether money should remain inside a corporation or be distributed, balancing tax efficiency against liquidity, or understanding how an investment decision may affect an estate years from now, all require considerably more than selecting an investment portfolio. They require an understanding of how the different components of a client’s financial life fit together.

Good advice can also have value in ways that are difficult to see on an investment statement. Sometimes the right recommendation is to do nothing. An attractive-looking tax strategy may introduce too much risk. An investment opportunity may not justify its complexity or cost. A transaction that produces an appealing immediate tax result may create an undesirable consequence several years later. Recognizing when not to proceed can be just as important as identifying an opportunity worth pursuing, yet the financial value of avoiding a poor decision is rarely easy to quantify.

None of this suggests that fees should be ignored. Quite the opposite. Clients should understand exactly what they are paying and should expect their advisor to be able to explain why those costs are reasonable. A lower fee does not automatically represent better value, just as a higher fee does not guarantee better advice. The more meaningful assessment is the relationship between what is being paid and what is being received.

That assessment also needs to be extended beyond annual investment returns. A client may reasonably consider the breadth and quality of the advice being provided, the degree to which tax and estate considerations are incorporated into decisions, the advisor's ability to coordinate with accountants and lawyers, the attention given to risk and liquidity, the accessibility of the advisory team and whether significant opportunities or potential problems are being identified before they become obvious.

Over time, this leads to a somewhat different way of thinking about the cost of financial advice. Rather than concentrating exclusively on the percentage being charged, the more important question may be whether the relationship has improved the client's overall financial position. After considering investment results, taxes, planning decisions, risk, complexity, opportunities identified and mistakes avoided, has the client received sufficient value for what they have paid?

For many high-net-worth families, that appears to be where the fee discussion ultimately leads. They may still care very much about cost, but cost is being measured against a much larger outcome. When the advice being received materially contributes to better decisions and a better overall financial result, the conversation naturally becomes less about finding the lowest fee and more about determining whether the relationship is worth what it costs.

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An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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