

Issue 143



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## A Peek into the PRIME QUADRANT®

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**November 14th, 2019**

[Click here to reserve your spot today.](#)

### **Upcoming Investor IQ Workshops**

September 4th, 2019  
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Asset Classes

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Prime Quadrant Conference

December 5th, 2019  
How and When We React to

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November 14, 2019  
Toronto

The Carlu  
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7th Floor

Volatile Markets

### What is the PQ?

In financial terms, the Prime Quadrant is the optimal zone in which you achieve the highest return per unit of risk.



Being in the Prime Quadrant requires seeing the big picture and making intelligent choices, from among all investment options and strategies, to best meet your goals.

**Prime Quadrant is an investment research and consulting firm that helps high-net-worth Canadians make better investment decisions.**

### Stories of Interest

#### What Makes a Great Investor?

Everyone reads; anyone can get an education or credentials, and anyone can get experience... what would make you different?

Mo Lidsky's most recent book [Partners in Preservation: How to Know your Advisor is Truly Protecting your](#)

## **Don't Take Asset Allocation Advice From Billionaires**

If you lost \$1 million dollars in the stock market would you care?

## **4 Lessons from the Richest Woman in Wall Street History**

Financial Wisdom from a lone woman among the titans of the Gilded Age: How Hetty Green amassed \$100 million by her death in 1916.

## **Why you Need an Investment Policy Statement**

Investing is a deeply emotional endeavour. Can this acknowledgement separate those who thrive and those who fail at this enterprise?

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## **The Way We See It**

*Below is a reflective piece written by Uri Klein, Research Associate at Prime Quadrant.*

### **How Much Does Trust Cost Us?**

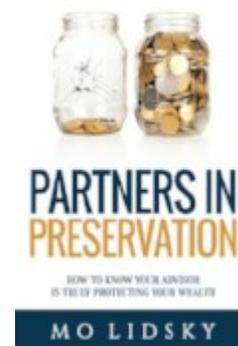
When we step away from our luggage at the airport, we give serious thought about who we ask to look after our belongings (i.e. the older and sweeter, the better!) The same is true when looking for a babysitter or entrusting others with any of our valuables. We're afraid of strangers. We solve for this anxiety by finding someone we know, someone who comes highly recommended, someone who belongs to the same social or religious group, etc. These are the foundations of social capital and trust.

Trust enables cooperation by lowering what economists call 'transaction costs' – there are costs above and beyond the nominal (or stated) price of an item or service. Transaction costs may include the costs of searching for alternative options and evaluating the pros and cons of those alternatives or assessing the probability that you will be duped. For example, when you shop at your local supermarket, you're probably not anxious about the berries being poisonous. You trust the store to perform due diligence and quality control. This trust lowers your transaction costs by eliminating the need to analyze the toxicity of these berries versus those of other grocery stores. As a result, you'd likely be willing to pay a few extra dollars to a trusted retailer as opposed to buying cheaper berries from a stranger on a street corner.

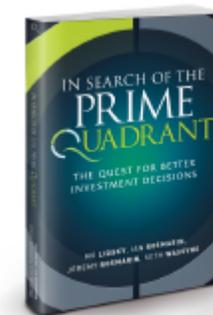
The greater the stakes the higher the transaction costs and the more trust matters. You wouldn't generally hire a full-time employee based solely on someone's recommendation, even if you trust the referrer. Sure, a friend's recommendation might secure an interview, but you'll want to assess the fit of the candidate for yourself.

Which brings us to investing and money management, where transaction costs are among the

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In Search of the Prime Quadrant: The Quest for Better Investment Decisions is available at Barnes & Noble and Indigo.



The Philanthropic Mind is also available on Amazon, Indigo and Barnes & Noble.

highest.

A Sports Illustrated feature from 2009 cites these humbling statistics: "By the time they have been retired for two years, 78 percent of former NFL players have gone bankrupt or are under financial stress because of joblessness or divorce" and

*"Within five years of retirement, an estimated 60% of former NBA players are broke."*

This is largely because they place their faith in the wrong people.

The extreme opposite is seen with seniors, many have far too much cash (often millions of dollars) sitting in checking accounts. Irrespective of any rational arguments to the contrary, they will not dare move the capital out of savings accounts, let alone use it to buy an investment of any sort.

Why can't athletes find proper advisors? Why are seniors petrified of anyone touching their accounts?

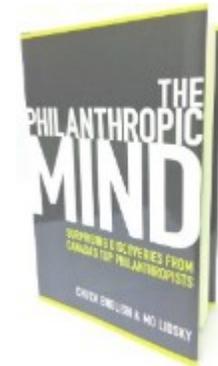
Athletes and seniors both suffer from trust imbalances. The athlete trusts anyone in their circle that "sounds smart". To him trust is cheap, until he loses his money. The seniors don't trust enough. Due to their strong risk aversion, they place too high a premium on trust. Both don't recognize that trust has a value, for which you could overpay or underpay - or for trust's ability to reduce transaction costs.

*Trust should be thought of as an asset.*

But trust works differently than other assets. Trust costs you. You pay more at the grocery store because you trust them. It lowers transaction costs but can raise nominal costs. When looking for an advisor, you will likely get worse advice by going with the cheapest option. In fact, many advisors that have extraordinary conflicts of interest will take no "compensation", as they're getting paid far more through the products they sell you – i.e. translating into lower nominal costs, but higher transaction costs and significant moral hazards.

The next time you consider who to leave your assets with – whether it's your luggage, your baby or your investments, make sure that you're calculating both the nominal costs and the transaction costs as well.

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"To make a mistake is only human; to persist in a mistake is idiotic."

- Cicero



# PRIME QUADRANT<sup>®</sup>

BETTER INVESTMENT DECISIONS

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