



CUSTOM PORTFOLIO SERVICE

**Erb
Financial
Services
Inc.**



ADVISOR PROFILES



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Sandra Erb

Financial Consultant



Sandra has been a financial consultant since 1993. Her commitment to excellence and her record of success is well founded with over twelve years of banking and financial experience at one of Canada's major banks. Professionally, Sandra believes in on-going education and training. She is currently working towards a Distinguished Financial Advisor (DFA) designation to augment her current licenses in Life Insurance, Sickness and Disability. Each year, she attends numerous courses, seminars and conferences to keep abreast of current legislation and trends.

Sandra believes that there is a better way to build financial security and wealth. A way that is available to anyone who takes the time to understand and implement the principles behind the financial planning process. To that end, her philosophy is straightforward; financial success is the result of a proper plan that focuses on the realization that clients do not need to make a lot of money in order to make the money they have, work for them.

For Sandra, the payoff comes from the satisfaction of knowing that prudent decisions made today will, in five to ten years, have a positive influence and an important impact on the lives of her clients.

Richard N Croft—R N Croft Financial Group Inc.

Investment Counselor Portfolio Manager



R N Croft Financial Group is a boutique investment counseling portfolio management firm. The firm utilizes a low cost tax approach that combines both active and passive management, including where appropriate, sophisticated option strategies.

Richard Croft is a leading expert on portfolio strategies. Richard co-authors a weekly Portfolio Matters column in the National Post and his views are regularly featured in other notable publications such as; The Globe & Mail, Investment Executive, the FundLetter, the MoneyLetter and E*Trade Canada Securities. Richard is regularly interviewed on ROB Television, CTV, Global and CBC Newsworld.

In 1996, Richard co-developed the Financial Post Indexes - now recognized as the primary portfolio benchmark for Canadian investors. The FPX Indexes are reported daily in the FP Investing section of the National Post newspaper.

Richard has been in the investment business since 1975 and has been actively managing client assets on a discretionary basis since 1993. Richard is pleased to be working with Erb Financial Services Inc., to provide a comprehensive range of innovative solutions for long-term investors.

Only...

The Portfolio Matters

Financial well-being is a critical element in our lifestyle. People in a strong financial position are more confident, make clearer decisions, and although we have no ready statistics to make the point, probably live longer.

A weak financial position can strain family life, hinder day-to-day working conditions, and force decisions that are not always in your best interest. But you probably already know that.

Most of us have an inherent understanding about the importance of establishing a set of financial objectives, putting in place a long term plan, and periodically re-examining that plan with financial check ups. Yet, most of us never do it!

Statistics from a recent Decima Research study showed that 50% of Canadians make only a token effort to review their finances, and those that do, do so less than once a year.



So we know what we need to do. We know that it is important. Our goal is to offer an investment approach that will help you make those important decisions today.

The Custom Portfolio Service 1) helps re-define the expression “long term”, 2) addresses your financial objectives over the long term, 3) quantifies the long term risks you must assume in order to meet those objectives and 4) provides the ongoing management expertise to ensure that those long term goals are being met.

Our role is to weave this process into an efficient portfolio that will meet and exceed your long term financial objectives within your ability to tolerate risk.

To The Future

What we know, what we think we know, what is unknowable

The investment markets respond to a host of influences, from the direction of the economy to interest rates to investor sentiment to earnings forecasts, and others. To further complicate matters, each of those influences can have a major or minor impact depending on where we are on the economic cycle.

Under ideal circumstances it is extremely difficult to identify each relevant influence, assess its current relative importance, and then forecast its direction.

But it's not just that. A capitalist economy is forever transforming itself, and that evolving transformation makes it virtually impossible to predict changes in markets.



To manage investments efficiently, we recognize that there are things we know, things we think we know and things that are unknowable.



We know, for example, that over long periods, higher risk assets should produce better returns. Typically higher risk equity assets should outperform fixed income assets which should, in turn, outperform cash assets.

We know that risk is defined as the variability of return. We also know, that over longer periods, there is less chance of having a negative return in any asset class.

The real problem is how one defines long term. The average time frame required to ascertain the statistical significance of return versus risk is twenty years. The average individual investor will hold a mutual fund for seventeen months.

We know that equities will outperform longer term, but can only make an educated guess as to how equities will perform over the next seventeen months.

The portfolio approach takes that into consideration, and will always default to the position that markets are unpredictable. Meaning that, despite a best guess forecast, we won't abandon lower return assets within the portfolio. Because lower risk assets provide the necessary stability, to keep you invested long term

The Portfolio Approach

Is the right approach

Investors usually buy individual securities not thinking about how each security impacts the overall portfolio. Like buying bread and ham separately, without giving any thought to how the two combined, might make a great sandwich. Let alone recognize how much a little butter and some lettuce and cheese would improve it.

Unfortunately, investors buy the equivalent of a loaf of bread and a box of dishwasher soap... because the concept of putting the things together never crossed their mind.



That's fair enough... because it never crossed anyone's mind until 1952, when an undergraduate student named Harry S. Markowitz, challenged conventional wisdom. His thesis debated whether investments should be kept to themselves all the time, or whether one could benefit from a theory that investments interacted with each other.

Putting his theory to work, Markowitz discovered that investments not only don't work in isolation, but when combined in a portfolio, can actually turn out higher returns with lower risk. His conclusion, which came to be known as modern portfolio theory, was that a properly constructed portfolio of individual securities creates synergies where the output of the combination is greater than the sum of the parts.

The logic is appealing, yet when you think about how most portfolios are constructed, no thought is ever given to the synergies. Securities are purchased based on historical returns rather than on what they may or may not bring to the whole.

At R. N. Croft Financial Group Inc. we believe that a portfolio is an intelligently-combined collection of securities. Rather than holding a disparate collection of investments, our portfolios are constructed within the context of how well new securities fit with securities already there. The goal is to ascertain what the inclusion of an additional security will add to the portfolio in terms of return, and what it will do to the portfolio's risk.

Managing the Collection

Portfolio Management not Investment Management

Croft Financial Group believes that portfolio management is a disciplined process for putting together a carefully constructed package of investments, and then managing that package as a unified entity. Portfolio management concentrates more on the management of the collection than on which particular investments make up that collection. Individual securities matter only to the extent that they improve the collection.



That's very different from investment management, where individual securities are the beginning and the end. Investment management concentrates on individual securities, with little regard as to how those securities fit together within a portfolio. Investment managers try to pick the best securities, one by one. But if you were to ask them how those selections perform together as an overall portfolio, they won't have much of an answer.

We are not suggesting that investment management is bad. Quite the contrary. If you are looking to buy a good Canadian equity value fund, you should be interested in how well the manager of that fund selects stocks. The goal is not to second guess their investment models (you have already bought into their model by virtue of buying into the fund). The goal is to make sure that fund (and that fund's discipline) fits with other funds or other securities already in the portfolio. Portfolio management recognizes those synergies, and seeks to exploit them. Investment management, for the most part, does not.

For that reason, we believe investors ought to work with a personal financial advisor whose focus is on the construction of the portfolio, rather than trying to second guess the investment management expertise within a specific mutual fund, closed end fund or exchange traded fund. Or trying to decide whether one bank stock is better than another.



The real mission is to manage the collection, mixing and matching asset classes, mutual funds and ETF's, ensuring that each security brings synergies to the portfolio.

The Role of the Advisor

“If it doesn’t go up, don’t buy it!”

American Humorist Will Rogers once offered advice on investing. It was simplicity itself. “Don’t gamble; take all your savings and buy some good stock and hold it till it goes up, then sell it. If it don't go up, don’t buy it.”



If investing were only so simple. Unfortunately, investors all too often let their emotions make buy and sell decisions. That is not surprising, because what looks like a blip on a long-term chart is only too real when you are watching markets decline day after day.

To confront that urge, investors must plan long term. As well, if we accept the notion that investors need to plan, then we should also accept the position that advisors play an important role in that planning.

With the Custom Portfolio Service we transform the hodge-podge of market lore and old wives’ tales into a program that ties investing to investment planning.

Sandra will guide you through the first steps of setting up an optimal investment program by asking a few simple questions including; “what is your financial objective?” We then provide you with a portfolio solution that, historically, has delivered that return over the long term.

We then focus on risk by examining the volatility associated with shorter time periods. The question then: “can you withstand the short term volatility experienced in this portfolio in order to make your expected return over the longer term?”



Having set up the right portfolio, Erb Financial Services Inc. plays an important ongoing role by helping you see the forest through the trees, by keeping you away from the myths, fallacies, and errors that have become part of the folklore of investing. What it comes down to is helping you overcome the desire to make financial decisions in a vacuum. Because, more often than not, decisions made in a vacuum are driven by fear or greed.

Defining The Portfolio Approach

Managing risk and return

The Custom Portfolio Service is really the end result of an investment process that begins with an optimized risk and return matrix, powers down to an asset mix decision, that provides the first and most important layer of diversification.

Having established an asset mix, we then select individual securities using a process that complements the asset mix decision by adding new layers of diversification. Specifically, diversification by geographic region, investment objectives and management style. The goal is to construct an efficient portfolio that provides an optimal weighting for each category.

We believe in looking for the best securities in each category, without regard to specific fund families. Rather than getting into the debate around index funds versus actively managed funds, we pay attention to a rigorous portfolio building process that brings together the best within a well diversified format.

This process does not immune a portfolio from the ebbs and flows of the business cycle, but it does go a long way towards smoothing out the fluctuations.

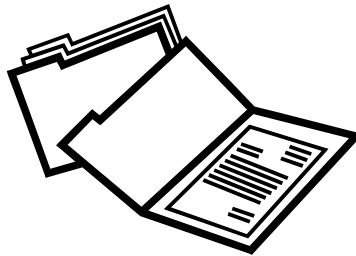
So what's new? The realization that selecting the right portfolio involves a bit of science and a lot of art. The science lays the foundation for making decisions; the art is mixing and matching within a portfolio to provide above average risk adjusted performance. The litmus test for the process is really quite simple; does the end portfolio produce better than average returns with lower than average risk.

Because in the end... only the portfolio matters.

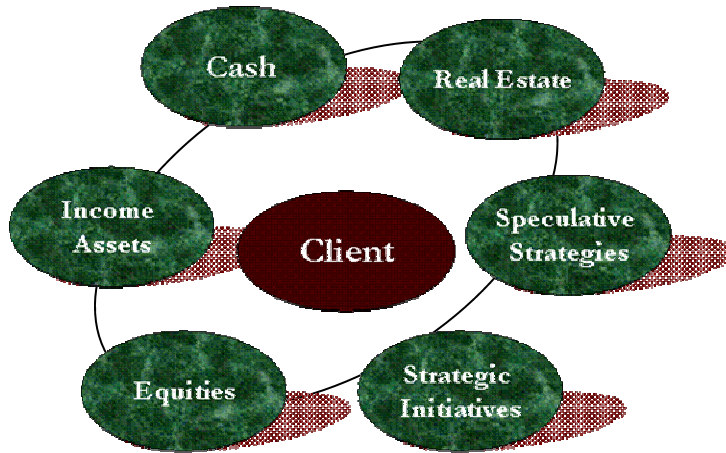
Custom Portfolio Service Process

Asset classes and securities

Questionnaire



Initial Asset Mix



Security Selection

