

Value for Money Investing by Gordon Stockman, CA, CFP
F-class Mutual Funds



This being a column on obtaining value, we invariably will find ourselves back to discussing fees. Since we are seeking value from our portfolio management arrangements, the discussion always gets back around to costs. It is fact, that if you are being assisted with your investments, you are paying for the service, and you need to get value from those relationships. Not a week goes by, that I do not hear at least once from an investor, that they do not have to pay for their investments to be managed. This is simply untrue of course. The fees are just not being waved in front of you. Mutual fund fees are disclosed in hard to read publications, where the language is anything but simple. More importantly, they are certainly never discussed enough. Do not be afraid to ask for a full explanation of fees.

As we have noted in previous columns, in Canada controlling costs can be difficult due to our position as the most expensive mutual fund market in the world. The watchword is careful. The effort is yours.

In the past, almost all mutual fund companies included the compensation to be paid to your representative and to their company in their management fees. Recently, we are seeing a lot of companies introduce a new series of mutual funds called F-class. These funds have had the MER (management expenses) reduced to reflect that they will not be paying any compensation to the representative. This allows the representative to apply their own fees. Be careful though. You would expect that the MER would have been reduced by an amount similar to what is saved by the fund company by not paying the representative. This is not always true. I will save you the agony of the math, but when introduced, some companies' F-class MERs on the new funds went down less than what would be expected based on what the representative and their company was being paid. If the representative then charges a fee identical to what he was previously earning, your total cost could have gone up.

Also, be on the look out for excess fees. Use of F-class funds is supposed to enhance your relationship with your advisor, but this quickly gets off track when the advisor is applying fees in excess of 1% to 1.5%. Many do! This same caution applies to the use of index funds. Index funds are cheaper to manage and the cost savings should go to you. However, very high advisor fees will negate the advantage.

If you are a do it yourselfer, you would think F-class funds are ideal. The MER is lower since advisor costs are not included and after all you do not want an advisor. The problem is these funds are only available through advisor managed accounts. Do it yourselfers are excluded and fund companies make no exception in order to protect their advisor base. Discount brokerage accounts are not helpful either, since I know of no discount broker that will allow the purchase of F-class funds.

While talking about discount brokers, it would be a good time to remind you that many mutual funds held inside a discount broker are of very poor value. As previously noted, most of the more popular mutual funds are intended to be sold by an advisor and therefore the MER includes the advisor's compensation. When held within a discount brokerage account, you are paying for an advisor but receiving no advice. Discount brokers are not able by their licensing to provide advice. If you thought paying for an advisor that never calls was a problem, think how it is to be paying and there is no one to call you. The discount brokers accept the trailer fees intended to compensate advisors for ongoing service, but offer no such service or advice.

As a do it yourselfer, the best avenue is to hold your mutual funds with a low cost advisor. There are a few that will charge you a nominal fee recognizing that most of their role is suitability and little if any investment advice. They charge accordingly. A good fee for service advisor will also reduce their fee for any trailers or commissions they do receive to avoid "double dipping". You can go to our website to find out more or call us for details.

Value For Money Investing means we wish to allocate and use our hard-earned resources in order to improve investment outcomes in a continuous and sustainable way at a fair and equitable price. In other words, achieve good investment returns AND receive fair value for the services provided.



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COSTS DO MATTER

Look at the chart and determine how much more you could keep in your pocket after a 20-year period, if you could reduce the overall fees in your portfolio by just 1%

START VALUE	RETURN OF %7	RETURN OF %8	YOUR SAVINGS
\$100,000	\$386,000	\$466,000	\$80,000
\$250,000	\$967,000	\$1,165,000	\$198,000
\$700,000	\$2,700,000	\$3,262,000	\$562,000

Call us. We Can Help!

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