



Value for Money Investing

by Gordon Stockman, CA, CFP

Value for Money Investing merely means that 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. Fancy words, that are easy to say, but what do they mean and what do we do?

As we learn young, all things come at a cost. We also instinctively learn that if identical services or products are available at different prices, we select the lower price of course. Why then do we ignore all of this, even fight against it, when it comes to investing? Likewise, we usually hate paying for services we do not need nor desire. There is a reason that over many years the hotel industry developed many different types of properties and luxury levels. Who likes paying Four Season prices when you just need a bed on the way to where you are going? Yet the norm in investment services is to charge everyone alike, whether they need or want that particular service. Again, why do we ignore this as investors when we do the opposite as consumers?

First we must realize that choice exists. Choice in products and choice in service levels. We also must decide that though a complicated area, as investors we are more than capable of understanding our options, if they were presented to us. Cars and homes are expensive, complicated items, yet we manage to dicker and consider our options. Investments are no different. When was the last time you bought a car by calling a dealership, describing a bit about yourself and then asking for them to deliver their choice, figuring that you were incapable of participating intelligently in the process? Moreover, you would not expect the Ford dealer to send you a Mercedes or a Toyota.

Next, realize that costs do matter. It is important to spend efficiently and ensure maximum value is received. You need to find those companies that recognize that the benefit of professional portfolio management received by the client must be at a fair price. Value, fairness and openness are essential attributes in the professionals you deal with if value for money is to be received. Find professionals that concur. Make your advisor explain all costs to you.

For instance, mutual funds come with imbedded costs. Each mutual fund company deducts management fees and expenses directly from the funds. The total of all costs are disclosed as the management expense ratio or MER, which are usually 2.5% to 3.5% and as high as 5% every year. Among the items these fees are used to pay are the one time selling commissions, sometimes over 5.5%, as well as monthly servicing fees called trailers or trailer fees, of as much as 1.2% per annum. Mutual fund clients all pay the same, are offered the same services and pay for the same sales effort, regardless of your needs or desires. Do you know exactly how much you are paying?

Do you know how your advisor is paid? This is very important. Your advisor is human too. As such, when he makes a recommendation, it is going to naturally be biased towards what is beneficial to him as well. Many advisors are bothered by this, but they do have to make a living. So help them. Remove the bias by openly discussing how he or she will be remunerated for this particular product or service. If it seems too high or out of line, question it. Remember there are always alternatives that can satisfy both of your needs to make money.

One of the problems you will encounter is that the vast majority of packaged investments such as mutual funds or principal protected notes come with an advisor attached. That is, they are paid by the manufacturer or distributor of the investment, for example the mutual fund company. Yes, those are the industry terms, manufacturer or distributor. That is why you need to play your part as the "consumer" very well. You are led to believe that no price negotiation is possible because prices and remuneration are set by the manufacturer. Well, when was the last time you paid Manufacturers List Price for anything else you bought. Exactly! As an investment consumer, why fall for that?

Why does cost matter? If you make an investment that has the potential to earn you 7% net of fees and you reduce those fees by 1%, so that you now earn 8%, in less than 23 years you will have earned an additional return EQUAL to your ORIGINAL investment. If you start with a \$100,000 you will earn an extra \$100,000. I will say it again, EQUAL to your ORIGINAL investment.

Work with your advisor to achieve savings. They can do it, but they need your help.

Next time, we will discuss the notion that each mutual fund or manager has a superior advantage and that makes the higher fees worthwhile or NOT!



We endeavour to provide unbiased, independent superior financial planning and wealth management services, on a fee only basis.

Efficient Wealth Management is a leader in cost efficient financial planning. We have developed cost efficient strategies for managing the wealth of investors, both small and large.

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!

Efficient Wealth Management Inc.

169 Lakeshore Road East, Port Credit
(416) 410-9809 www.efficientwealth.com



Gordon Stockman, CA, CFP

Gordon is the Vice President – Financial Planning at Efficient Wealth Management Inc. a leader in cost efficient financial planning. He teaches at George Brown College in their Financial Services and Accounting area. He is also a frequent guest on television and has written numerous articles on investing and financial planning.