

Value for Money Investing by Gordon Stockman, CA, CFP
Spare the fees.



Value for Money Investing means to achieve risk appropriate investment outcomes in a continuous and sustainable way at a fair and equitable price. More simply, achieve good investment returns AND receive fair value for the services provided. Your well being should be improved net of all advisory costs.

In Canada, if you have investments, you also have costs to hold those investments. This is somewhat counter-intuitive, since you are giving someone or some entity, your hard earned savings, you would hope that they would be paying all the freight. Unfortunately, the costs are usually being borne by you, the person eager to make a return. Be certain then that investing requires vigilance and careful attention when it comes to costs. Remember, many things you encounter in life are a pleasure to partake, own or experience, but not at any price. There must be value for the amount paid or the price is deemed too high. It is no different with investment products.

An example might be helpful. Let us look at Principal Protected Notes. According to the Canadian Securities Administrators "a Principal Protected Note, or PPN, is an investment product that consists of two parts. One part is an investment that promises to return to you the original amount you invest in the PPN, usually after a six to ten year period. A third party, called the guarantor, guarantees the amount you will receive. The second part of the PPN is a market-based investment, usually linked to a market index, a fund, or another investment product that offers the potential – but not a guarantee – of a profit on your investment...

Sellers of PPNs attract investors by promising that they can have the principal amount of their investment guaranteed and still have the prospect of earning a rate of return above what might be provided by a GIC or other investment providing a fixed return."

So how do these work? The note manager will take your investment of say \$5000 and divide it into 3 parts, one part being their 4% upfront fee, or \$200. The second part 66% or \$3300 is invested in a 10 year GIC like investment at 5.2% and lastly the 3rd part \$1500 or 30% is invested in a Global Mutual Fund (theirs of course). Over 10 years the 66% or \$3300 earning 5.2% can provide the manager with an additional 1% fee (on this portion) each and every year and still grow to just over \$5000 in 10 years. This is your guarantee. Your GIC like investment has grown after fees to over the original \$5000 of the total investment, so giving your original investment back is no problem. The Global Mutual Fund of \$1500 will become what it becomes based on the results of that particular fund.

All simple enough, but doesn't it look familiar? For many retirees it is very similar to their actual portfolio. 2/3rds of their investments are in fixed income or GICs and 1/3rd in the stock market spread globally. The difference is in the fees. You have paid 4% up front with the PPN but probably nothing upfront in your portfolio. The manager is able to collect fees on the fixed portion each year and you pay none annually on your GICs and lastly, the Global Fund used may not be of your choice and will probably have a substantial MER (more fees).

So what is the point? Your new guaranteed investment is no different than the rest of the portfolio in terms of potential or risk, yet you are willing to pay more fees believing that there is a guarantee. After 10 years, your well balanced portfolio already was assured of not losing any money if you were 2/3rds invested in guaranteed certificates or strip bonds. Yes, your whole portfolio is one large PPN without the extra fees. Diversify and adhere to a good asset allocation plan and spare paying the fees.



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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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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.