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**Kim Inglis, BCom**

## **Questioning fees is always sound advice**

Understanding costs is essential when investing



**Investors shouldn't be afraid to ask their advisors what they are delivering for their fees.**

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If I suggested we talk about advisor fees you'd probably respond with "Why? In the midst of this downturn, fees are the least of my problems".

I would argue otherwise. It's true that in the midst of market turbulence your "on paper" portfolio reduction seems to be your biggest problem but the fact is that solid investments will recover and grow, but fees continue throughout the years, during either bear or bull markets, with a constant impact on portfolio performance.

During this turbulent period you may be planning what you will do once the dust settles, and are preparing

questions for your advisor: "Can my investments be better positioned to withstand future volatility?"

Unfortunately, you may not be preparing questions about your advisor's fees because you don't really understand them and are embarrassed to ask. That would be a mistake.

Your objective should always be the achievement of your investment goals using a minimum of resources – whether time, effort or fees.

To determine whether the fees are money well spent, the investor must understand them and what is received in return.

# NATIONAL POST

## FINANCIAL POST

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Let's look at two variations on the popular fee-based model where you are charged an all-inclusive fee based on the size of your portfolio. The fees can vary between 0.75% and 2.5% and are often based on the type of investments in the portfolio. If a portfolio is comprised mostly of fixed income products, then the fee will be much less than a 100% equity-based portfolio requiring more active management.

Consider an investment of \$500,000 held inside a fee-based RRSP account for 25 years, returning 7% annually. Assuming a modest 2% rate of inflation and a fee of 1%, you will be left with a 4% return representing a compounded \$832,918.17 gain. If the fee was 2% you would have a 3% return or a \$546,888.96 gain. The cost of this additional 1% in fees is \$286,029.20 or \$11,441.17 per year.

The advisor must be able to articulate the value derived by the additional 1%. Perhaps the portfolio is quite active and requires a greater number of transactions. Maybe the entire portfolio undergoes extensive rebalancing every year and the advisor workload is

quite high. The advisor may have additional services included in that 1% increment, but it is all meaningless if the investor can't recognize and appreciate the benefits.

Your advisor should be able to show clearly that the fee set up is designed to generate the lowest fees possible. There should not be any shades of grey.

Your advisor should welcome the opportunity to bring clarity and transparency to the fee structure. If you haven't had a frank and full disclosure of fees with your advisor, I urge you to do so.

When fees are too high, the only person who loses out is you.

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## YOUR MONEY

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### Controlling Investment Fees

**Q.** I recently reviewed my portfolio with my financial advisor and I'm a bit confused. Everything seems to be going along okay with my investments, but the returns don't seem to be matching up with the so-called performance. I have a feeling that it might be the result of fees. Is there something I'm missing here?

**A.** Fees absolutely have an impact on the performance of your portfolio and you are quite right to think about them. If they are too high they erode your returns. Factor in inflation and the results can be startling.

If you're like most people, you probably cringe when your advisor mentions fees or commissions, but investment counseling is like any other professional service – there are fees. However, with investing there are options in determining the size of the fees and they can be adjusted to suit your needs. Let's look at the two typical set-ups; commission and fee-based accounts.

In a commission-based account you are charged a fee for every transaction. Ranging from 0.25% to 3%, fees are dependent on the type of asset class, the size of transaction, and the liquidity of the product.

In a fee-based account you are charged a single fee. Depending on the size of your portfolio, the fee will range from 1% to 2.75%. The fee provides a set number of transactions per year and is not dependent on any factor other than portfolio size.

In my opinion, the decision whether to use a commission or fee-based approach depends on the individual investor. Some of my clients are better served by a commission structure, some suit a fee-based arrangement, while others fall somewhere between.

Determining the best set-up requires thinking because it depends on a number of considerations. If you have a conservative portfolio and take a buy and hold approach with your investing, you will likely find that a commission structure is your most cost efficient option. Conversely, if you are an active trader with a lot of portfolio turnover, a fee-based account would likely be the superior choice.

Let's pretend you have a \$600,000 portfolio and are a conservative investor who doesn't trade very often. If you only make six trades a year with a total value of \$200,000 at an average commission of 2%, your fees would only be \$4,000. However, if you were in a fee-based account, paying 1.5% a year on the total value of your portfolio, your annual fees would be \$9,000. *You would be overpaying by \$5,000.*

Now let's instead pretend that you are an active trader averaging thirty trades a year. Instead of paying 1.5% a year on the total value of your portfolio, you are in a commission-based account paying per transaction. Assuming all thirty trades amounted to the total value of your \$600,000 portfolio and are subject to the same 2% commission, the fees would be \$12,000. *In this case, you would be overpaying by \$3,000.*

Careful and appropriate thinking is necessary to determine which set-up is best for you. If your advisor hasn't set you up properly, the fees can wreak havoc on your bottom line. If you haven't discussed fees with your advisor, I urge you to do so – and make sure you understand them fully. *When fees are too high, the only person who loses out is you.*

*Interested in taking a fresh look at your portfolio? Kim Inglis is an Investment Advisor with Canaccord Capital and would be pleased to answer all your questions. Contact her at 604-643-7753 or via email at [kim\\_inglis@canaccord.com](mailto:kim_inglis@canaccord.com). Member CIPF.*