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Fee based accounts on the rise

A popular set up with investors

Investors have been busy putting their money to work in the markets. According to the Investment Company Institute, mutual fund assets worldwide increased to an all-time high of \$30.05 trillion at the end of the fourth quarter of 2013, rising \$3.2 trillion over the year due primarily to strong capital appreciation in equity related categories.

A report from PriceMetrix found that equity transactional volume also rose in 2013. PriceMetrix examined the books of business of full service advisors and found that equity trades per advisor increased between 2012 and 2013 from 346 to 357. As may be expected, greater transactional volume translates into increased costs for investors.

To address transactional cost increases, more investors are opting for fee-based pricing models where they pay a set percentage typically in relation to portfolio size. PriceMetrix found that fee-based assets have increased 19% over the last two years. A simple examination of the math provides an explanation of why this structure has grown so much in popularity.

PriceMetrix findings reveal that, in North American retail wealth management, the average household's total portfolio is \$562,000 with an average equity trade size of \$22,730. Assuming there are a couple of such trades per month and 2.5% is charged for each, the total annual trading cost would exceed \$13,000. If that investor were

instead in a fee-based account charging 1.50%, the savings would be \$5,200 per year.

The value of those yearly savings should not be underestimated. If that same investor took their \$5,200 savings each year and invested them for 20 years in a conservative portfolio earning even 4%, they would generate almost \$155,000. And, the investor may benefit from tax advantages because fees associated with non-registered fee-based accounts are generally tax deductible.

The fee-based model's inherent values also attract investors. Advisors offering fee-based services tend to focus on wealth management holistically. Instead of simply providing investment advice, they often supply a variety of additional services such as financial and estate planning, tax planning, and business succession strategies.

Those are significant benefits. For example, a financial plan can run between \$1,000 and \$2,500 depending on its complexity. Similarly, business succession plans typically start at \$3,500 and can go upwards to \$5,000 or more. Expensive as standalone products, such services are included in the fee-based model.

Taking advantage of these additional services can be very beneficial. According to the Investment Funds Institute of Canada, investors who work with a full service advisor have nearly three times

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more wealth and investable assets on average than those who do not.

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