CANADIAN INVESTORS' COURSE

Session 14:
Investment Strategies
Commentary

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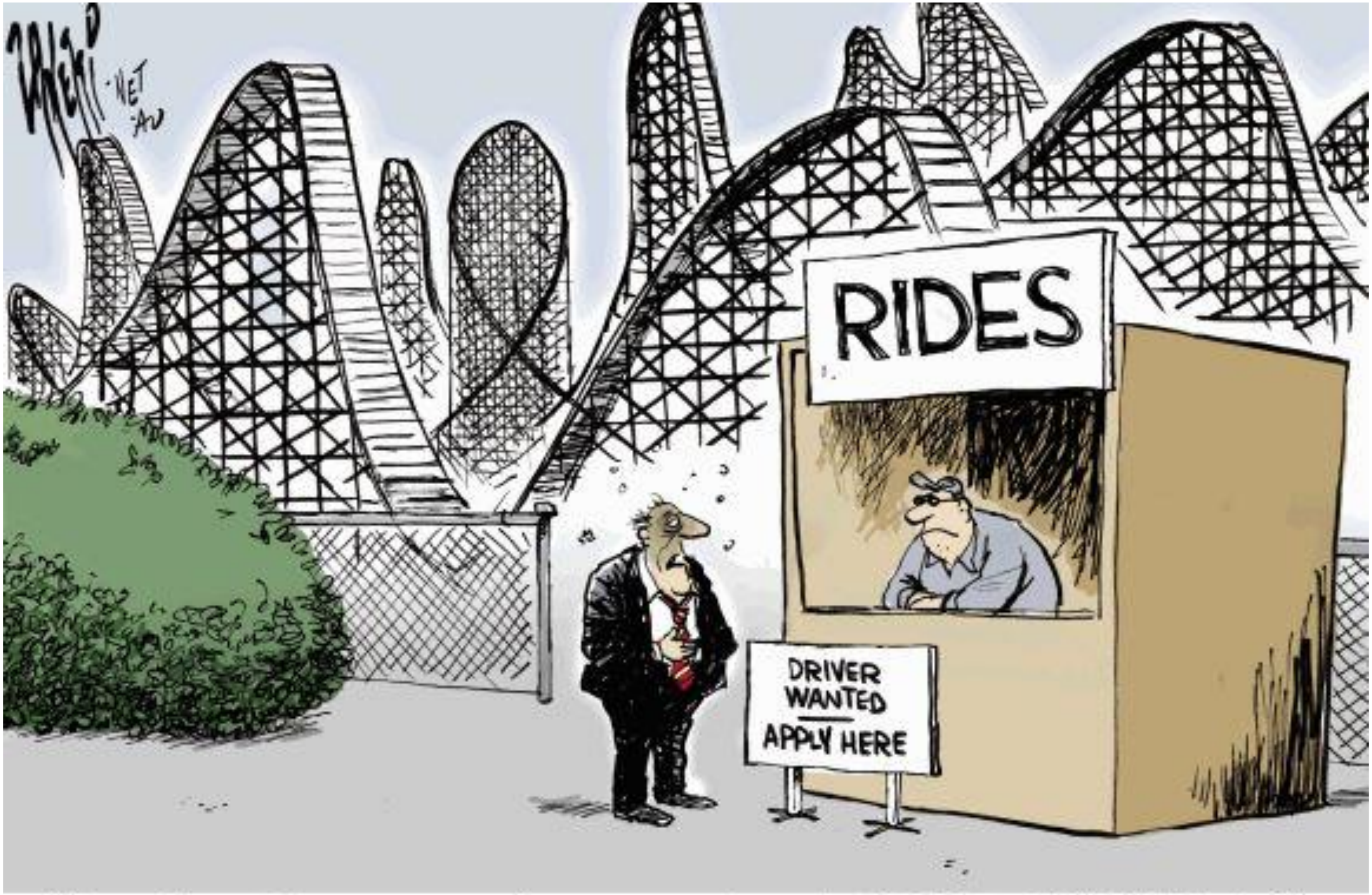


" I USED TO BE A STOCKBROKER BUT I'M LOOKING FOR A GIG A LITTLE EASIER ON THE STOMACH... "

Special Topic

TARGET DATE Investing

You are going to hear more about this in the news.

1. What is Target Date investing?

2. As Yogi Berra would say "Déjà vu, all over again".

3. Who Sells this product and what are the fees.

4. Who really sells this product and what's wrong with it.

What is Target Date investing?

'Life-Cycle' Funds, also referred to as 'age-based funds' or 'target-date funds', have an intrinsic appeal that's hard to beat.

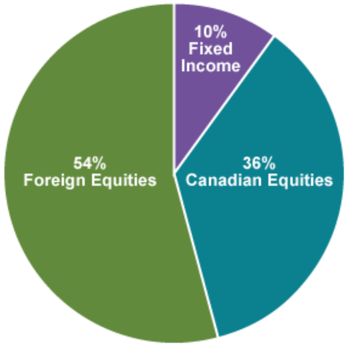
This investment product operates under an asset allocation formula that assumes you will retire in a certain year, and adjusts its asset allocation model as it gets closer to that year. The target year is identified in the name of the fund.

So, for instance, if you are 45 years old and plan to retire at age 65, with this year being 2017, you would pick a fund with 2037 in its name. Very simple. You make one decision and do nothing for the next 20 years.

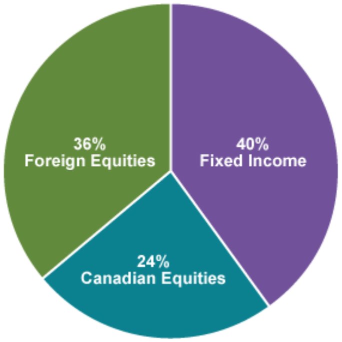
As Yogi Berra would say “Déjà vu, all over again”

Remember these Pie Charts from Session 2?

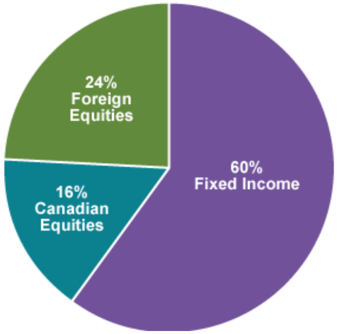
- Same old, same old, all over again…just in a different package.
- You buy into the strategy once and you will transition from left to right in the pie chart mutual fund combinations below as you age
- In the Pie Chart method, an investment advisor changes the mutual fund portfolios for you
- In the Target Date method, the Advisor buys it once for you, then it’s all automatic



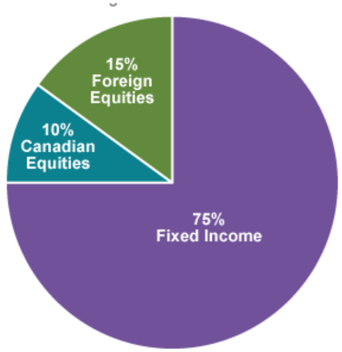
“Growth Pie Chart”
Year 2057 Target Date
(assume you are age 35)



“Balanced Pie Chart”
Year 2047 Target Date
(assume you are age 45)



“Conservative Pie Chart”
Year 2037 Target Date
(assume you are age 55)



“Very Conservative”
Year 2027 Target Date
(assume you are age 65)

Who Sells the Target-Date product? And what are the fees?

Product sellers:

1. IIROC licenced Advisors
2. Insurance agents
3. Mutual fund salespeople (MFDA licenced)
4. MFDA licenced Bankers
5. Most IIROC and some MFDA licenced people are insurance licenced too

Fees:

Total internal fees are similar to the pie chart mutual fund solution. They tend to range from 1% to 3%. The higher fees are related more to insurance company solutions. The Advisor could sell this to you via a “front end” load or “deferred sales charge” (DSC, advisor receives 5% commission). We recommend to buy this Front end load at a 0% charge because the Advisor receives a 1% embedded trailer fee every year you own this product. Do not pay a front end commission to buy this. A 1% trailer fee is VERY generous considering you are supposed to own this for life.

Who really sells Target-Date products? And what's wrong.

1. Although you were given a list of sellers, MFDA and Insurance licenced sellers tend to sell this product. It makes work much easier and the client pays you for life. Some IIROC advisors will sell this, particularly, via Segregated fund format. Be very suspect if you are sold this product with DSC commission. Don't do it! Change Advisors. Look for 'DSC' on your statement beside the Fund or product. It reveals a lot.

2. Is the product going to be there for you after a 20 to 40 year period? History indicates that it probably won't, so, who is Target date really serving?

3. Another major problem with all this is the level of todays' interest rates. We have discussed this in other CIC Sessions. The Bond yields are at ALL TIME LOWS! They are lower than the 1930s depression era. If rates go sideways, or up, in the future, the fees will eat up the bulk of your returns! These portfolio assumptions were designed when interest rates were historically normal. **<u>See next page.</u>**

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This is why you need a Trusted Wealth Professional

Business · Wealth Management thestar.com

By **GORDON PAPE** Building Wealth
Sat., April 1, 2017

For example, the Sun Life Milestone 2020 Fund currently has 97 per cent of its assets invested in bonds. That's consistent with safety but it means investors are missing out on the returns being generated by the current bull market. The fund's average annual compound rate of return for 2016 was -0.9 per cent and so far in 2017 investors have earned just 0.4 per cent.

Compare that with the Fidelity ClearPath 2020 Portfolio (series F). Just over half its portfolio is in stocks, which enabled it to return 4.85 per cent in 2016 and 2.5 per cent so far this year. However, if the market should crash in the near future, participants will have more than half their pension assets exposed to what could be a precipitous drop just a couple of years before they are due to stop work. That could be a financial disaster!

Traditional Target Date Ratios (Stocks:FixedIncome) are Changing

Overall rating on Target Date fund programs:

NOT GREAT

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