



CANADIAN INVESTORS' COURSE

Session 9 – The Investment Industry: Products and Fees



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Session 9 – The Investment Industry: Products and Fees



- Investment products – who offers them?
- Types of investment accounts
- Investment account fees



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What's out there?





How are they Paid?

1. Commissions
2. Fee-based
3. Salary and Commission (bonus)
4. Salary





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How are they Paid?

Independent planners:

- commissions (hidden or not hidden)
- trailer fees

Bank sales people/planners:

- salary
- salary plus bonus
- commissions
- fees generally hidden.

NOTE: please read the last slide on CRM2 legislation



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How are they Paid?

Insurance agents:

- commissions
- trailer fees
- salary plus bonus (if insurance agents work for a bank)

IIROC securities dealers:

- commissions
- trailer fees (mostly from mutual funds)
- % fee of managed account (fee-based)

NOTE: please read the last slide on CRM2 legislation



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Investment Products

1. Individual Securities such as stocks, bonds, money market, ETFs, preferred shares, precious metals, etc ... are either purchased with a commission charged or FREE via fee-based accounts.
2. Mutual funds charge an MER (management expense ratio) – generally hidden. This can vary from 1.25% to 2.50% per year. The mutual fund sales person who recommended the product was paid in one of 2 ways:
 - a. Deferred Sales Charge (DSC) – salesperson is paid 5% of total amount invested in a hidden manner. The investor will get charged this fee if they sell early. Look for 'DSC' on your statement.
 - b. Front end charge – Salesperson can charge 0% to 5% upfront and you see the fee. No charge to sell funds.
 - c. Low-load funds – It is a form of DSC where salesperson receives 1% to 2% hidden charge.
 - d. All forms of purchases just described pay the sales person a trailer fee that is always paid every year. This trailer fee is 0.5% to 1% per year.
 - e. Mutual funds at a bank or credit union charge an MER. The salespeople are not paid a commission but most likely paid a bonus based on amounts sold to customers.



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Investment Products (continued)

3. Wrap Accounts – Generally sellers of this product not charge a commission to purchase this program. They receive a portion of the total MER or general management fee, usually up to 50% of the fee. Most of the fee is disclosed every year except the fees charged by the internal managers chosen to invest your money. These fees are generally hidden. Ask your salesperson if there are any hidden fees. The fees are similar to the MERs on mutual funds except for a large portfolio where it can be negotiated down by the client. Find out if you qualify, shop around.
4. Unified accounts fees are structured similar to Wrap accounts.
5. Pooled funds. You may see these in your Wrap account program. Fees associated with these are hidden so you may have to ask to see a fact sheet which includes all the fees.
6. Exchanged Traded Funds (ETFs) - like mutual funds, fees are hidden. CRM2 will not force the industry to show fees. You must ask your advisor to see the fact sheet. Fees are usually lower than mutual fund MERs. Great packaged product.
7. Segregated Mutual funds – sold by insurance agents and IIROC licensed advisors. MERs are hidden and sometimes difficult to find. CRM2 legislation in 2017 will NOT force these fees to be disclosed, so you must ask. The fees can range from 2% to 4% per year. The salesperson gets paid in a similar fashion (trailing commissions) similar to Mutual Funds (DSC, etc ...)



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Investment Accounts and Fees

1. Regular Commission Investment Accounts – These allow investors to invest in almost any instrument in Canada from GICs to stocks to bonds, etc. There are Full-Service investment accounts offered by investment advisors providing advice, and discount brokers. If you know what you want to invest in and feel you don't need help or advice and do your own research go with a discount broker and save huge fees. Fees are up to 90% lower than a Full service advisor. Transactions are about \$10 per trade.

2. Fee-based accounts – These are very popular and are offered by Full-Service IIROC licensed advisors. The Advisors' firm charges a flat percentage on the total value of the portfolio per year. All transactions in the account **can be done at no additional charge**. This is the way to go if you need advice. Very unbiased account. Be aware that the advisor can use F Class mutual funds in these accounts, where the advisor does not get paid a trailer fee to hold the fund, but instead receives the visible fee and you pay a lower (hidden) MER on the fund. You should ask your advisor to show you the total fees you will pay including all the hidden fees, especially if you are going from conventional Mutual funds to F class funds in a fee-based account.

Fees on fee-based accounts vary between different investment firms and even between Advisors in the same firm. Shop and compare.

NOTE ALSO that a lower fee does NOT necessarily equate to lesser advice or quality of Advisor. Reach out to a Trusted Wealth Professional using the LOCATOR on the website, to obtain a fair fee schedule. Once you have chosen an Advisor, address and agree the fee schedule up-front, then start working together to form a true partnership.

3. Look to the next few CIC Sessions on Packaged Products to learn more about using money managers through mutual funds, wrap accounts etc.



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CRM2 Legislation in 2017- Investor Protection

CRM2 refers to the second round of changes under the Client Relationship Model, an initiative of the Canadian Securities Administrators.

These are new rules for what financial institutions need to disclose to clients, including **two new annual reports** that will include the **cost of advice** and the **annual portfolio performance**.

CRM2 applies to everything from mutual funds to stocks and bonds starting in 2017.

Expect to receive reports in January 2017 providing investors with a 2016 summary.

The fees that the investor pays are reported in Dollars and Cents, NOT percentages. **In many cases, only half or a portion of the fee will be reported.** Currently, it is expected that in 2018, all fees will be disclosed

Mutual fund and wrap account investors will get the biggest wake-up call, since, generally, they **have the most hidden fees**. Some investors never knew that fees were changed annually or how much. **They will be shocked!**

Fee-based IIROC investment managers for portfolios (ie. Trusted wealth Professionals) that use individual securities have always disclosed fees and are tax deductible when charged outside retirement accounts. No change there with the new legislation.

Fee-based accounts with mutual funds and ETFs in them will NOT disclose all fees, ASK to be shown all fees in dollars and cents. Your Advisor has all information in dollars and cents and would be pleased to show you.

NOTE: Insurance products (eg. Segregated Funds) will not be forced to reveal fees charged to investors. There doesn't seem to be a reason why the Government doesn't include this. Ask your insurance agent how much will be charged annually in dollar and cents and how much the agent was paid in commissions and what trailer fees are. Insist on dollar and cents in the answer. Your agent definitely has this information. Hopefully this exclusion will change in January 2018.



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