



# **CANADIAN INVESTORS' COURSE**

## **Session 8 – The Investment Industry Overview Commentary**



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## Mutual/Segregated Funds

Mutual/Segregated Funds can be purchased via:

- No-load – no commission charged to buy or sell the funds. Best practice. Most Advisors do this now.
- Low-load – Fund seller receives a hidden fee of 1% to 2%, investor must hold funds for 2 years before they are free of the penalty of having to pay back the commissions
- Deferred sales charge(DSC) – 5% commission paid to seller and is hidden, investor will pay a penalty to pay back the commission if funds are sold early (usually 6 to 7 years). Free after that.
- Front end commission – Fund seller charges an upfront fee that you see (1% to 2%), the investor can sell the funds free of charge anytime.



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## Trailer fees and How you should purchase

### Mutual/Segregated Funds

The MER (Management Expense Ratio) of a Mutual/Segregated Fund includes internal charges known as trailer fees that are paid to the Mutual/Segregated Fund sellers. If, for example, the MER on a mutual fund is 2.25%, the trailer fee is 1% every year.

If the Funds are designated as 'F' Class then these funds do not contain the typical trailer fee of 1%. F-Class funds are placed in 'Fee-Based' accounts.

If Funds are sold to investors via Deferred Sales Charge, where the seller receives a 5% hidden commission, then the seller's trailer fee every year is 0.5%.

**INVESTORS SHOULD PURCHASE MUTUAL/SEGREGATED FUNDS via the NO-LOAD STRUCTURE ONLY.**

The 1% annual trailer fee is very generous for most mutual fund sellers, they will agree.

**Ask before you buy.**

**Insist on no-load Mutual/Segregated Funds ... or walk away!**



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## Bonus Structures

For Industry players that receive a bonus structure, generally it comes in two forms:

1. Sellers are given a quota structure, and bonuses or compensation can grow as different sales levels are attained
2. Bonuses based on volume of sales through the year and retention of investors funds

\*Some mutual fund sellers at Banks get paid a 1% or 2% commission on the dollar amount invested at Banks.

**\*\*Always ask the seller, in all cases, how they are compensated.**



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## CRM2 – the Age of fee disclosure has come

### What is CRM2

CRM2 – Client Relationship Model, phase 2 is designed to disclose fees paid to your advisors and charged to investors in the investment industry.

Disclosure of fees have been going on for many years if you deal with an IIROC licensed Advisor that practices portfolio management via fee-based accounts. The only hidden fee product in these types of accounts are when “F”-Class mutual funds are placed in them. Ask your Fee-based advisor for a summary of all fees in these accounts.

The real difference in fee disclosure will be with mutual funds. MERs have been hidden until now. The fees that are incurred in hidden commissions and trailer fees regarding mutual funds will be disclosed in Dollars and cents. However, the total MER will NOT be disclosed.

### CRM2 should be known as ‘CRM/2’ or ‘CRM 1/2’

New law regarding fee disclosure begins in 2017. Unfortunately, full fee disclosure is believed to be spread over a two year period, where another CRM phase is implemented in 2018. This next phase will disclosure all fees charged in mutual funds (the total MER). Full disclosure. It's possible that this can be delayed, therefore, read the sessions in this course that educate you on all fees in all financial products.



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## Example

### **\$178,000 portfolio of mutual fund with MER of 1.90%**

Total fees charged for the year on this amount, assuming amount remains stagnant all year (for simplicity of calculation), is  $\$178,000 \times 1.90\% = \underline{\$3,382}$ . This is what you actually paid. In the future new rules will lead to the complete disclosure of this amount.

Fees disclosed under the current CRM2 legislation are  $\$178,000 \times 1\% = \underline{\$1,780}$ . Ask your Advisor or Banker to calculate the entire fee charged including those not disclosed. They can provide this number to you.

Many Canadians could be surprised because they thought fees on hidden financial products were much smaller or, believe it or not, were thought they were FREE!

**\*UNFORTUNATELY, segregated mutual funds that are categorized as Insurance products are NOT required to disclose MERs or hidden commissions charged. The Insurance industry is not affected by CRM2 (until January 2018 – expected timeframe). Be aware of this when Advisors and Agents sell Segregated (SEG) funds to you. Ask for the 'LOAD' charged and ask that they calculate (in dollars) the total annual fees.**





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