



# **CANADIAN INVESTORS' COURSE**

## **Session 10: 'Packaged' Investment Product**



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## Session 10 – ‘Packaged’ Investment Product





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**"Actually, I couldn't care less what they do about capital gains."**



## Managed Assets

- Mutual Funds
- Segregated Funds
- ETFs
- Wrap Accounts



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## Mutual Funds

- “Pooling” of dollars from many investors
- Investors buy “UNITS” or dollar amount
- Units bought and sold each business day at 4pm (market close price) at NAV (Net Asset Value)
- Money managed by Professional Money managers
- Prospectus sets the rules and fee disclosure
- Manager invests based on Criteria in the Prospectus
- Very good liquidity



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## Mutual Fund Fees

- Management fee
- Administration Fees
- Trailer Fee
- DSC (deferred sales charge fee)
- Trading costs and Miscellaneous
- MER (Management Expense Ratio) - includes **ALL** fees...
- **Ask for the MER**



## How to Buy Mutual Funds

Where to buy? – Investment Advisors, Financial Planners, Banks, Trust Companies, Discount Brokers, etc ...

What will it cost? ... depends

Fees to purchase:

1. No load – no fee to buy or sell
2. Front End load – 1% to 5% to buy only
3. Low load – hidden 2.5% fee, (short DSC)
4. Deferred Sales Charge (DSC) – “Back End Load” – hidden 5% fee/commission with 6 year declining balance

Trailer fees every year (to the salesperson): 1% on Front end, ½% on DSC

**So ... how should funds be purchased?**





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## Managers' Styles

Equity	Fixed-Income
• Growth Managers	• Short-term
• Sector Rotator	• Mid-term
• Value Managers	• Long-Term
	• Interest Rate Anticipators
	• Spread Traders



## Growth Managers

- Tend to buy stocks with high P/E ratios



## Sector Rotator Managers

- Tend to stress market timing



## Value Equity Managers

- Tend to buy stocks with low P/E ratios



## Index Mutual Funds

- These are a basket of stocks that match an index
- Typically charge lower management fees than actively-managed mutual funds
- And most often beat the returns of most managed funds



## **What are Segregated Funds**

- Mutual Funds with Insurance
- Offer guarantees:
  - 75% of original investment after 10 years (protection against asset erosion)
  - 75% or 100% in event of death
- MER may be 1.0% higher (or more) than regular mutual funds to pay for the insurance

Who sells them:

1. Investment Advisors
2. Insurance Agents



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## **The '4%' per year 'Income Plus' investment**

- A form of variable rate annuity
- Offers 4% guaranteed after age 65
- If income is taken before age 65, the guarantee period is 20 years
- Money goes into Segregated funds
- MER is minimum 3.5% (Seg fund MER + Insurance rider)
- If you get paid 4% (plus 3.5% MER)...
- Portfolio must go up 7.5% per year to break even!
- Extra fee for guarantee is on 'original' invested dollars
- Inflation could hurt you
- Will insurance company have a problem?
- As an investor, don't expect your money back
- At death, estate gets original investment less the funds that have been paid-out and the fees charged



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## Does the MER matter?

- Yes, it effects returns...
- Thousands of Mutual funds to chose from
- Ask questions





## ETFs

- **Exchange Traded Funds**
- ETFs are bought and sold on the stock exchange
- Trade at discount or premiums to NAV (net asset value)



## ETFs

- Most ETFs mimic indices, bonds, etc ...
- Commodities and/or portfolios
- Originated in Canada
- TIPS and HIPS, (now the **XIU**)
- Transparent



## ETFs

- Fees lower than Mutual Funds
- Passive ETFs: controversy over long term returns, vs. “professional” management
- Now some ETFs are actively managed



## **Portfolio ETFs**

- New generation of ETFs
- Mimic portfolios
- Fees lower than Mutual Funds
- Fees hidden so NOT tax deductible
- Some ETFs emulate WRAP accounts at lower fees
- Alternative to Mutual Funds



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## ETF Example

### **iShares S&P/TSX Canadian Dividend ETF**

- designed to replicate the performance of the S&P/TSX Canadian Dividend Aristocrats Index
- management fees 0.60%
- listed on the TSX – symbol CDZ
- top holdings – Atlantic Power, AGF, Enbridge Income, IGM Financial, Shaw, Cineplex, Keyera, Thomson Reuters, BNS
- Pays dividend – 4.26% (Nov., 2016)

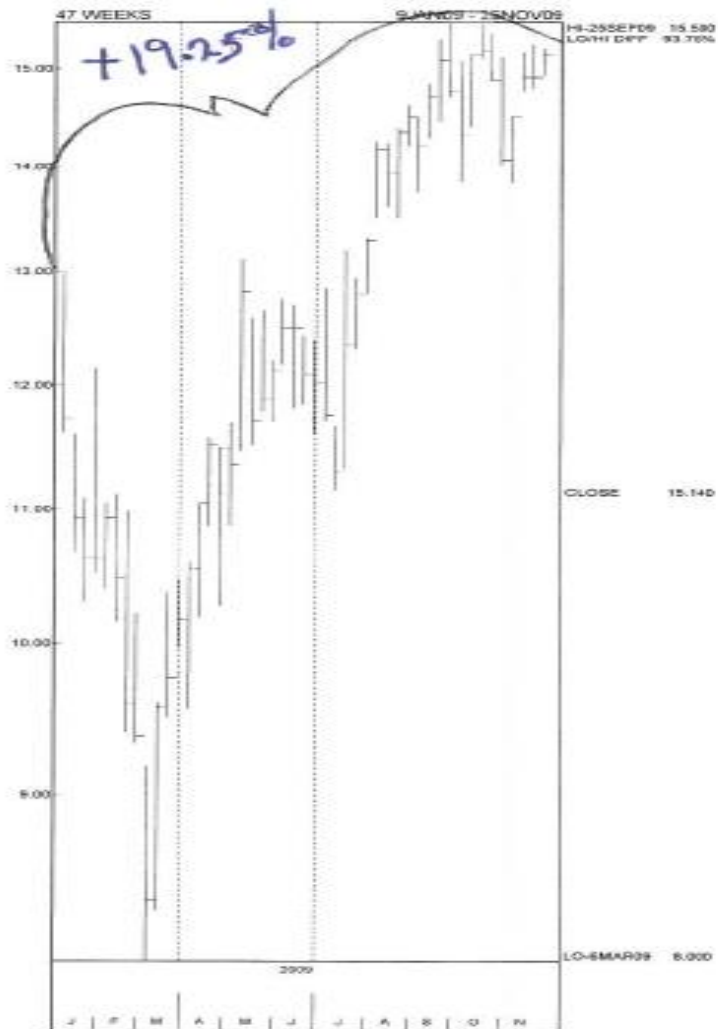


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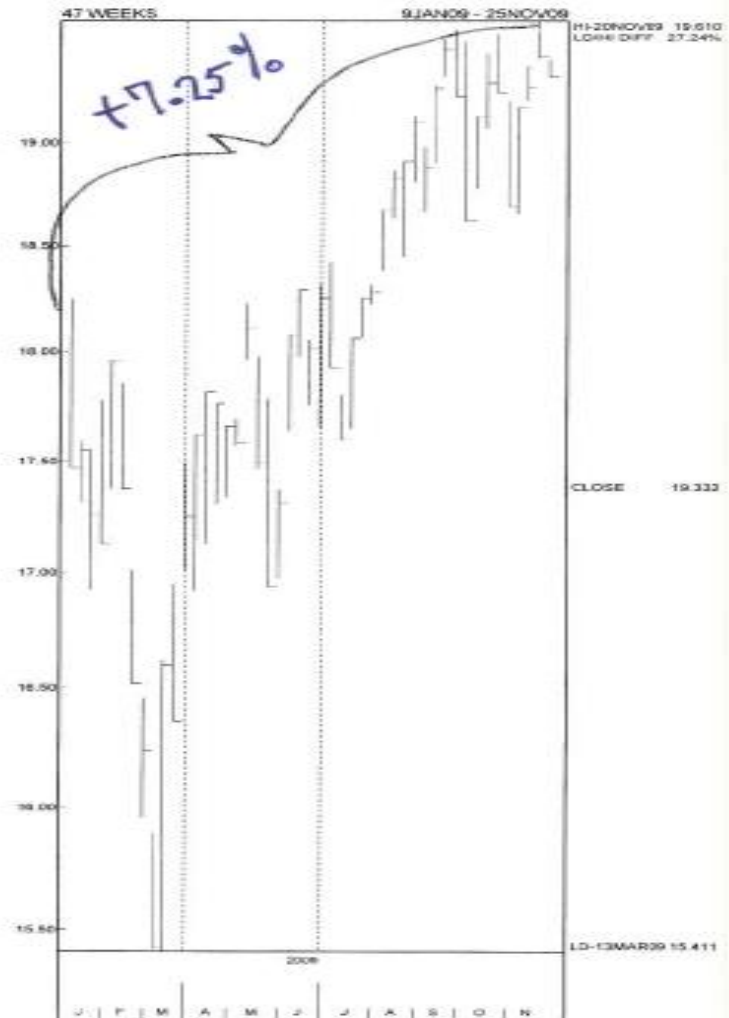
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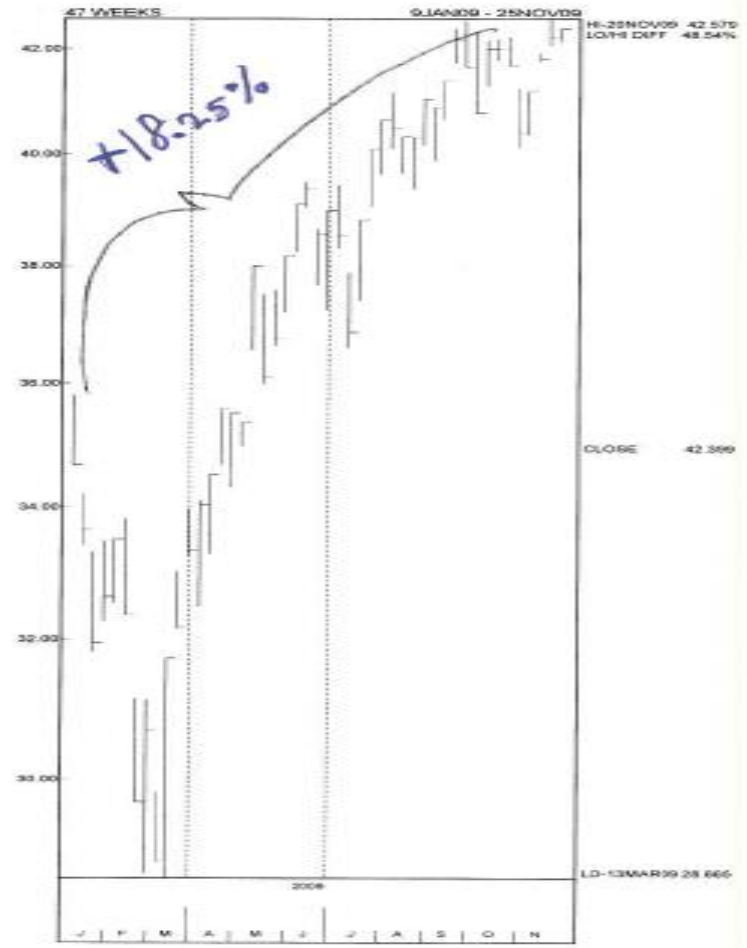
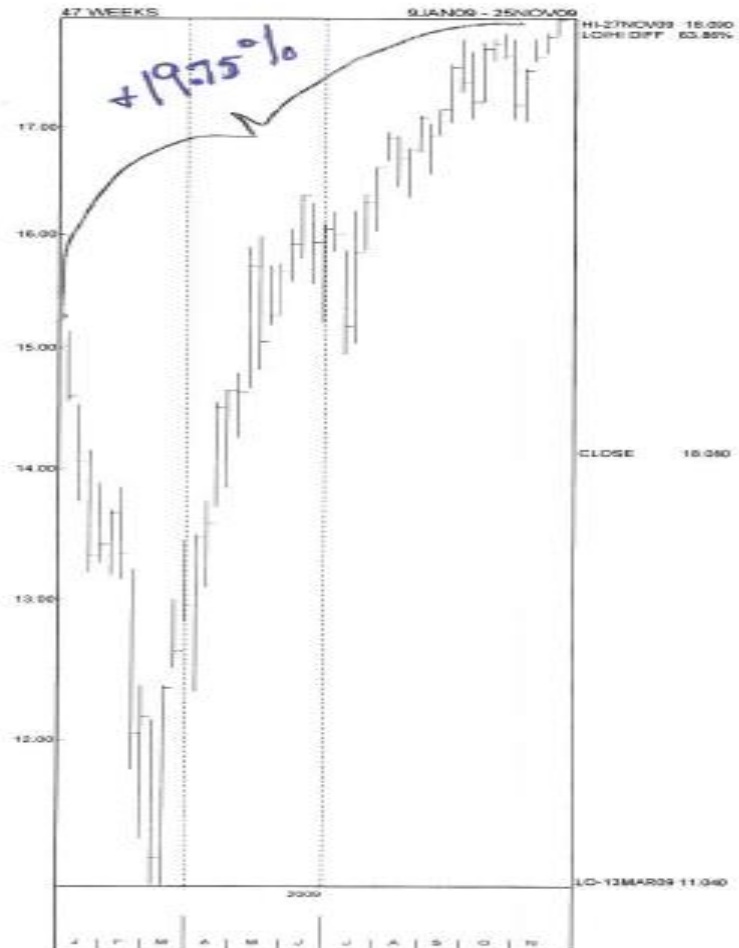


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## **WRAP Accounts**

- Professionally managed investment plan
- All fees are 'wrapped' into a single annual fee (1.25% to 3%)
- Accounts usually require a minimum size
- Fee is visible = tax deductible





## Wrap Accounts

- Investor 'buys-in' to a specific group of WRAP funds or a managed portfolio of securities
- Investment dollars are allocated among asset classes depending on the risk tolerance and needs of the investor
- Choices of allocation, can be 6 or more types of portfolios
- This allocation process can be achieved with Mutual Funds too
- **What's the difference?**



## **WRAP Accounts**

- WRAP accounts tend to have lower fees
- The management portion of a WRAP program should be tax deductible
- Management fees not hidden (but other fees may be)
- Most WRAP programs perform rebalancing of accounts to maintain the Asset Allocation goal



## **WRAP Accounts**

- WRAP accounts usually give investors many choices of managers
- You or your Advisor can hire or fire managers
- Some WRAP accounts have a 'Manager' that monitors the Managers



## **WRAP Accounts**

- Debate over performance vs. Mutual Funds, excluding tax advantages
- Allocation method usually restricted to “Strategic” (discuss later)
- Sometimes referred to a glorified, fee efficient, Mutual Fund account



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## WRAP Accounts

- Best purchased in a 'No-Load' format
- Advisor receives a portion of the fees
- Advisor helps monitor the manager, and can initiate switches
- WRAP accounts are an alternative to 'Portfolio of Mutual Funds' or a 'Managed' mutual fund portfolio



## How should an Intelligent Investor approach WRAP accounts?

- Suitable for “hands-off” approach to investing
- Returns unlikely to exceed market return over the long run
- Simple approach to long term saving in non-registered accounts



## **The Unified Account**

- Good alternative for investors who don't want to use individual stocks in their portfolio, and who also prefer not to use mutual funds
- Investors visualize individual securities in their account, leading to tax efficiency
- Ideal for passive investors
- Lower fees / Tax deductibility
- Tactical Asset Allocation is practiced



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