

NOVEMBER 8, 2008



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Questioning fees is always sound advice

Understanding costs is essential when investing



Investors shouldn't be afraid to ask their advisors what they are delivering for their fees.

If I suggested we talk about advisor fees you'd probably respond with "Why? In the midst of this downturn, fees are the least of my problems".

I would argue otherwise. It's true that in the midst of market turbulence your "on paper" portfolio reduction seems to be your biggest problem but the fact is that solid investments will recover and grow, but fees continue throughout the years, during either bear or bull markets, with a constant impact on portfolio performance.

During this turbulent period you may be planning what you will do once the dust settles, and are preparing

questions for your advisor: "Can my investments be better positioned to withstand future volatility?"

Unfortunately, you may not be preparing questions about your advisor's fees because you don't really understand them and are embarrassed to ask. That would be a mistake.

Your objective should always be the achievement of your investment goals using a minimum of resources – whether time, effort or fees.

To determine whether the fees are money well spent, the investor must understand them and what is received in return.

NATIONAL POST

FINANCIAL POST

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Let's look at two variations on the popular fee-based model where you are charged an all-inclusive fee based on the size of your portfolio. The fees can vary between 0.75% and 2.5% and are often based on the type of investments in the portfolio. If a portfolio is comprised mostly of fixed income products, then the fee will be much less than a 100% equity-based portfolio requiring more active management.

Consider an investment of \$500,000 held inside a fee-based RRSP account for 25 years, returning 7% annually. Assuming a modest 2% rate of inflation and a fee of 1%, you will be left with a 4% return representing a compounded \$832,918.17 gain. If the fee was 2% you would have a 3% return or a \$546,888.96 gain. The cost of this additional 1% in fees is \$286,029.20 or \$11,441.17 per year.

The advisor must be able to articulate the value derived by the additional 1%. Perhaps the portfolio is quite active and requires a greater number of transactions. Maybe the entire portfolio undergoes extensive rebalancing every year and the advisor workload is

quite high. The advisor may have additional services included in that 1% increment, but it is all meaningless if the investor can't recognize and appreciate the benefits.

Your advisor should be able to show clearly that the fee set up is designed to generate the lowest fees possible. There should not be any shades of grey.

Your advisor should welcome the opportunity to bring clarity and transparency to the fee structure. If you haven't had a frank and full disclosure of fees with your advisor, I urge you to do so.

When fees are too high, the only person who loses out is you.

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