Are You Getting Value for Your Investment Fees?

By Charlene Birdsall, CPA, CMA, CIM, CFP,
National Bank Financial

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." – *Robert G. Allen.*

Savings accounts might earn .05 per cent on your money, but a greater share of Canadians see value in putting their money in investments while working with Investment Advisors. According to a 2020 study from the Montreal-based non-profit CIRANO Institute, investors who received professional advice were found to accumulate 131 per cent more assets after 15 years with an advisor compared with investors without advisors. Investment advisors are better equipped to provide the guidance to achieve their clients' goals.

Determining the value of professional investment advice is a catch 22. While receiving advice, the cost of paying for it also eats away at those returns over time. You may want to ensure you are getting value for your investment fees paid.

So, how do investment advisors get paid?

- **Transactional based accounts** are where clients would pay their investment advisors commissions for each transaction to buy and sell an investment. The costs are normally paid up-front and range between 1.5 to 10 per cent, depending on the size of the transaction. The fees would only be tax deductible once the security has been sold and would be part of the capital gain or loss. This type of account is less common.
- **Mutual funds** fees are called management expense ratios (MER) and come out before the client's growth of the investment. These fees can range between 2.15 to 3 per cent annually, whereby part of the fee goes to the fund managers, and the balance of the fee is paid to the advisor as a trailer of 0.75 to 1 per cent (out of the MER). It is only the trailer portion that is reported on your annual statement of fees.
- **Fee based accounts** are the most effective and common way of paying for investment advice. It is a set percentage based on the value of the investments. Having an easy-to-understand fee schedule for your wealth advice puts you and your investment advisor on the same side of the table, focusing on the same objective: growing your wealth. The investment advisor does well if the portfolio does well, therefore, both the client and advisor interests are aligned.

Percentage Increase in Asset Size Associated With a Financial Advisor, 2010, 2014, and 2018			
Tenure with a financial advisor	**2010**	**2014**	**2018**
<4 years	0.0	60.0	79.0
4 to 6 years	58.0	268.0	79.0
7 to 14 years	99.0	164.0	114.0
15 years or more	173.0	290.0	131.0

Figuring out fees

So, what is a reasonable fee? This will depend on a variety of factors, such as portfolio size, the asset allocation of the portfolio, and the type of investments (bonds, common stock, trust units, mutual funds, exchange traded funds, closed end funds, structured products).

If you are working with an investment advisor and have an actively managed portfolio, fees could be as high as 2.5 per cent but averaging 1.7 per cent based on the value of the portfolio. For accounts $500,000 plus, fees can be as low at 0.7 to 1.5 per cent. National Bank offers a dynamic fee structure, where there are set automatic fee reductions at certain thresholds, lowering your overall total percentage of fees paid. They have also included family pricing in fee schedules to lower total fees paid for the family.

Are you getting bang for your buck in the fees that are charged by the financial advisors though? Some questions you may want to ask yourself:

- Do you know how much you are paying in fees?

- Does my advisor have the required proficiency and training?
- Do I have mutual funds or an exchange traded fund with hidden fees?
- What types of services are you receiving for fees paid?
- Are you receiving proactive investment advice and recommendations?
- Is the performance meeting benchmarks?
- Are you receiving non-investment advice, such as wealth transfer, tax optimization, financial planning, and mortgage information?
- Are your investments tax efficient?
- Are your fees tax deductible?

With your hard-earned money, you should be paying for a good advisor. A good advisor would:

- Assess your risk tolerance;
- Implement a financial planning strategy to meet your goals over time;
- Have access to good research, and find the best investments in the best sectors and geographic regions;
- Recommend selling when close to targets, or when there are cash requirements;
- Manage the risk by investing in quality investments, keeping on top of each security, and know what is going on with the economy;
- Boost returns by implementing tax saving strategies;
- Clarify fees paid to them, and how they are working for the client to keep fees low; and
- Most of all, good advisors keep in touch with their clients. Good advisors let their clients know what is going on with the portfolios, and good clients help the advisors when major life changes take place, like a home purchase, a birth in the family; or a death in the family.

From my experience, when dealing with prospective clients, many are still unaware of exactly what fees are being charged in their portfolio. Even though fees are now required to be reported annually, there are still hidden fees that are not shown (i.e., management expense fees on mutual funds, exchange traded funds, structured notes, and closed end funds), all of which eat away at your total return on investments.

At the end of the day, your goal should be to have a well-diversified portfolio that is tax efficient and an investment advisor that prioritizes your interests and goals in a cost-efficient manner.

Charlene Birdsall, CPA, CMA, CIM, CFP, is an Investment Advisor and Portfolio Manager for National Bank Financial. You can reach her at Charlene.birdsall@nbc.ca. National Bank Financial – Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF Inc.), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF Inc. NBF Inc. is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX:NA).