

MANAGING YOUR WEALTH

# Adviser fees may leave people ‘doubly shocked’

**GAIL JOHNSON**

Special to The Globe and Mail

Published Thursday, Feb. 16, 2017 5:03PM EST

Now that new disclosure rules on investment fees have come into effect, the first related statements are rolling out across the country – and many people’s jaws may be dropping as a result.

Under the Canadian Securities Administrators’ Client Relationship Model Phase 2 (CRM2), adviser fees are now expressed in dollar amounts. They have traditionally been expressed as percentages.

The rules are aimed at giving people more clarity on investment performance and fees, and yet, even with the new framework, many Canadians remain unclear about the cost of investing.

Adding to the confusion is that the new statements do not give the full picture, as they do not include other key costs, such as the management expense ratio (MER) on mutual funds.

Still, many believe the new rules to be a good start to helping investors understand costs.

“For the most part, people have a very fuzzy understanding, at best, of fees,” says **Karin Mizgala, co-founder and chief executive officer of Money Coaches Canada**, who is based on Salt Spring Island, B.C. “The vast majority of the people we see ... don’t feel equipped or don’t know what questions to ask. The fee structure that the financial industry has constructed over the years is very, very complicated.”

She adds: “But it’s still good news; I believe that this movement is going to create a lot more awareness of fees and the impact that fees can have on your investments.”

The key for investors is to start asking questions, she says.

“Some of the fees being disclosed are going to shock the heck out of a number of people, who will be doubly shocked when they find out what the real full-meal-deal fee would be,” she says. “The disclosures on fees don’t necessarily tell you the whole story.”

To determine the full costs associated with mutual funds, investors need to consult the fund fact sheet for each one.

Ms. Mizgala encourages people who may be unsure about how much they are paying in fees to ask their adviser to give them the full breakdown. Even more important is understanding what they are getting for their money. An adviser should be incorporating risk tolerance, financial goals, retirement plans, net worth, and the rest of the portfolio mix to advise on funds that are best suited to investors at various stages of life.

In her view, unless investments are greatly surpassing relevant benchmarks or investors are getting extraordinary service, fees should not exceed 1.5 per cent of a portfolio. Excessively high fees can take a significant chunk out of savings over several years. A single percentage point on a \$250,000 portfolio, for example, means \$2,500 a year, or \$50,000 over a 20-year period, going to an adviser.

The rollout of the new CRM2 rules, Ms. Mizgala says, opens the door to frank discussions.

“This is a really great opportunity to check in and go over the agreement between the client and the adviser,” she says. “What are the expectations? Are people getting financial planning advice wrapped into this all-in fee? Is it strictly investment management? Are they happy with the amount of communication? Are they getting education from their adviser? What is actually occurring between client and adviser such that you then can assess whether this is a value proposition?”

“At least the fact that there’s some disclosure here brings it out in to the open,” she adds. “It’s ridiculous that we have not been provided in the past with the most basic information to make good financial decisions: What am I paying and what am I getting for that?”

Investors who have been jolted by seeing how much they pay in dollar amounts may start to seek out alternatives, such as exchange traded funds (ETFs), discount brokerages, and robo-advisers.

Robo-advisers may be a good option for those who cannot tolerate advisers’ fees and who feel comfortable doing their own financial planning, including saving for retirement and minimizing taxes, says Sandi Martin, an advice-only financial planner at Spring Personal Finance in Gravenhurst, Ont.

But Ms. Martin says that those who are firmly opposed to high investment fees and are considering going the DIY route need to be realistic about what’s involved in terms of time and knowledge.

“I know a lot of people who think the optimal answer is ETFs because they’re the cheapest, but they sit on it for months and months and end up never executing because just looking at the trading screen and seeing things like ‘limit order’ make the learning curve seem so much steeper,” she says. “If you’re not going to do it, that low fee isn’t benefiting you. If you don’t have time or you’re not interested, you shouldn’t be a DIY investor.”

What people may not realize is that ETFs are a basket of investments tied to a specific index, such as the S&P/TSX composite index or the S&P 500. A person’s own ETF investments mirror the ups and downs of whatever index the ETF funds are tied to. ETFs can be volatile, cautions Russ Elford, wealth adviser with Investment Planning Counsel in Edmonton.

If an investor goes the self-directed route, he recommends they invest in something they understand.

“The most successful investor on the planet, Warren Buffett, does not buy ETFs,” Mr. Elford adds. “What he does buy is very good, high-quality companies that he understands tremendously well, and that’s where his wealth is created, not by speculating on the market.”

If an investor wants to invest in individual stocks, he suggests they emulate Mr. Buffett, using a defined, clear, disciplined process that involves ongoing monitoring of investments to provide as much predictability and certainty as possible.

“Own the best and leave the rest,” he says. “What are the best? Predictable, growing businesses that have proven their ability in the past, that are dominant in their space, that are difficult to compete with and difficult to replace and replicate. It’s important for people to understand what they’re investing in. People have peace of mind when they understand something. When you understand the experience, you can sleep better at night.”

But regardless of what they invest in, the key question is whether they need direction. Mr. Elford says that advisers consider questions such as: Are your investments going to help you reach your financial goals? How are you mitigating risk?

And investors will need to decide for themselves whether that’s worth the extra fees.