Why you should leave DSC funds for good

Posted on July 27, 2020 by Mark

OK readers, let's be blunt:

DSC (Deferred Sales Charge) funds serve no good purpose to any investor given the plethora of far better investment alternatives now.

I mean, if someone tells you they can make your money grow faster because they have some superior, proprietary fund to invest in, run away. **Fast**.

A Deferred Sales Charge (DSC), is a back-end fee that is charged to a mutual fund investor if they redeem their investment prior to a set amount of time. It is a charge designed to discourage the early redemption or sale of your investment—in this case, mutual funds.

In general, I believe there are three key ways for an investor to deal with a DSC fee:

1. Try to have the DSC reimbursed to you. *(You'll need major negotiation skills since the fund advisor is depending on you to pay that fee to keep their yacht!)*
2. Live with the DSC for a period of time, then sell. *Sunk costs but such is life.*
3. Pay the DSC throughout and ride it out. *Not ideal.*

Reader case study (quotes include verbatim information from the reader)

I recently got an email from a reader about DSC funds and I figured it would make a good, general, case study for leaving DSC funds for good.

Here is the reader scenario with a few assumptions made about their situation along the way….

Hi Mark,

Thanks for taking my email and hopefully you can help?

My RRSP is with Fidelity. In four funds. Paying on average more than 2% per fund. (I know, after finding your site – terrible). I told my wife we'll fix it!

Anyhow, "I would yap and complain to the advisor who I have had for 25+ years and he would convince me every year that it would be smarter to stay rather than leave." I am almost 68 years of age.

I know for a fact two of those funds have matured from the DSC fees you wrote about with Ken Kivenko on your site – those fees no longer apply.

I read your post about some all-in-one funds and it seems a great way to invest to meet some of my growth and income needs.

The present value of my RRSP is $162K. "I haven't contributed any additional monies in a number of years. Mostly because I didn't want to pay any more fees and I've never been a true believer in RRSP at any time. Just a tax deferral that I utilized when I had higher income."

Here are my questions:

1. *Shall I consider all-in-one funds for those two existing matured funds?*
2. *What should I do with the other pending funds to mature?*

Thanks so much Mark!

I appreciate your email and questions.

I shared your case study with trusted Certified Financial Planner (CFP®) Steve Bridge, from Vancouver. Steve works as an advice-only financial planner with Money Coaches Canada.

As a CFP® who helps clients directly with retirement (and pension) planning, I figured Steve would be an excellent subject matter expert to offer his take on this subject.

First up, my thoughts.

If your DSC funds are near maturity dear reader – please cut the cord and leave those DSC funds for good!

With so many great and simple options available to you now including those desired all-in-one funds available, AND commission-free investing with partner on my site Questrade (affiliate), I think the time is now to make the switch. We'll discuss more options below!

That said, there are far more considerations and therefore I wanted to bring in Steve who has "been there, done that" with so many other clients in this messy DSC fee position.

Steve, thoughts for our reader?

Thanks Mark and great to be back on the site.

As is almost always the case when it comes to someone's finances, no individual piece should be looked at in isolation – as you well know.

So often people call or email me too and have 'just one question', but in reality, that one piece affects other parts of their finances. They may not see it, but it's kind of like asking someone to fix just one side of your Rubik's Cube-that side may look good, but your other sides are now a mess!

For your reader a few questions that came up for me were:

- What are his other sources of retirement income?
- It seems he is married, so do they have a unified drawdown strategy (from their RRSP or RRIF) that will minimize tax as a couple?
- What is their overall asset allocation?

There are more questions but these are my starters!

Getting to his specific situation, I would say that his advisor's responses don't really surprise me. The advisor had a vested interest to keep his client's assets under management, sadly, as long as the investments are 'suitable', he or she has done their job. I would have liked to have been a fly on the wall for the 25 years of 'convincing' conversations!

While it is a bit late for your reader, for all those years paying higher fees than necessary, I want other readers of *My Own Advisor* to take heed and have a look at what they are paying in investment fees.

Over 25 years, that little 2% management fee will erode approximately 40% of your profile's value. I recommend my clients pay 1% or less, which can be done through a robo-advisor, DIY ETFs or mutual index funds, or a portfolio/wealth manager.

I know you're a fan of this approach and have written many articles about these alternatives as well Mark.

OK, a little more background on deferred sales charges, or DSCs.

Mark, you are correct that from the industry side, they are sold on the premise that having hefty redemption fees in the early years is good for clients, as it stops them from acting on emotion and/or cashing out spontaneously. The theory is good, because oftentimes an investor's worst enemy is looking back at them in the mirror. Many investors aren't rational and will buy high and sell low (we're biologically programmed this way, it's not our fault!) and act on emotion.

The HUGE problem arises when for one reason or another, an owner of a DSC fund wants/needs to move their investment. To what is often their surprise, they have to pay redemption fees/penalties to get their own money! These fees go down year by year and are usually $0 by the 7th year or so. (The good news is that a nationwide ban for DSC funds is planned for 2022. I remain optimistic!)

Mark, you are spot-on when you suggest finding out the maturity date and any possible redemption fees. If he is close to the end date, it may be worth asking the advisor to waive the fees, or even calling the company that owns the funds directly. After 25 years, they've got their pound of flesh so should be okay letting him go.

Whether it's two funds in question or others for any reader of Mark's site, I would suggest you find out what the fund performance has been over the past five, 10 and 15 years. Perhaps they are the outliers of actively-managed funds that have out-performed the index? If they are, they may be worth keeping (this decision goes hand-in-hand with an overall plan, asset allocation and drawdown strategy), especially if there a similar lower fee fund that he could move to.

Otherwise, the reader could look at hiring someone to manage the money for him, or he could potentially do it himself – again via one of those options I listed above such as an all-in-one product with a brokerage, by getting support from a low-cost robo-advisor or working with a portfolio manager who charges 1% or less.

Mark:

You can learn how a robo-advisor can support lower-cost investing and help you train your investing brain here.

I also have a great partnership with Wealthsimple should you wish to explore them.

Steve: I thought the comment "*never been a true believer in RRSP" was* an interesting one, as I have heard it before. I think there are two parts to this I would share with your readership:

- Some people don't understand that RRSPs are a tax-shifting vehicle. They shift tax owing from a higher-earning year to a lower-earning year (normally when you are retired or have little to no other income). They don't make tax disappear but can save you a lot of money if used right.
- Some people confuse the account with the investments. People will say that they 'bought some RRSPs' when this is not possible. It's like saying, "I bought some savings accounts." I think they are actually disappointed/upset with the investment performance, likely due to owning high-fee actively-managed mutual funds.

While I have mentioned it already, I cannot stress how important a solid drawdown strategy is. This means retirement income strategies need to look at all sources of income (pensions, CPP, OAS, RRSP/RRIF, TFSA, non-registered accounts, etc.) and then deciding how much to take from each and when. The benefit is that you will minimize taxes payable and make your money last as long as possible, and will also save on estate taxes (these, not probate are the real damaging taxes at death).

If you're in your 40s or 50s you may not think this matters to you, but you can be setting yourself up for success by having a mix of investment accounts and working on getting you and your spouse's taxable income/assets more or less equal by your desired retirement age. I know you're actively working on this Mark and I would encourage other investors to do the same.

I hope this helps your reader and happy to come back to your site Mark as I know you get a lot of reader email.

Summary

Thanks Steve. I thought this was great insight from an advice-only planner who has heard or dealt with many an investor email or venting episode on the subject of DSC funds.

It is my personal hope these products will be banned in the coming years but I won't hold my breath. So, buyer beware in the interim and I wish all readers well in their pursuit of lower-cost investing and wealth building.

Subscribe to my site if you haven't already done so below to stay tuned for more case studies, and much more to help you save, invest and prosper.

A big thanks again to Steve Bridge, a CFP® from Vancouver for his great insights on this subject. Steve works as an advice-only financial planner with Money Coaches Canada (no affiliation with *My Own Advisor*).

You can find him at https://moneycoachescanada.ca/about/steve-bridge/ and/or you can follow him on the Twitter machine like I do at @SteveMoneyCoach.

I hope to have Steve back once again for more investing discussions in the future.

Mark