

Investor Insight

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Understanding the Fees You Pay

Over the past year, we have been making changes to the information you receive to give you a better understanding of your investment fees and portfolio performance. Given the focus on costs in our industry, we wanted to provide some background to help give our clients a better understanding.

Types of Accounts

There are two main ways to pay for the advice of a professional advisor: through a fee-based or a commission-based account. With a fee-based account, a fee is paid each year for the account's management, often calculated as a percentage of the account's value. With a commission-based account, fees are based on the purchase and/or sale of the portfolio's investments. In addition, certain fees are associated with the cost of owning various investment products such as mutual funds.

Over the years, the industry has moved towards a fee-based model. Some advantages may include:

- Tax-deductible fees
- Less bias in recommendations
- Potentially lower overall costs for significant portfolio activity

What is an MER?

The costs associated with running a mutual fund are included in the management expense ratio (MER) and charged as an annual percentage fee. There are three main components: i) Management fee – The cost associated with fund management, which includes having a dedicated team of professionals who actively research and monitor the fund, making adjustments when necessary to manage risk. The fee may also include a dealer and advisor component, which helps to pay for the services that we provide to our clients; ii) Operating expenses – Various administrative fees, including legal, tax and financial reporting costs; and iii) Sales tax (GST/HST) charged to the fund, which depends on the province of residence of investors of the fund.

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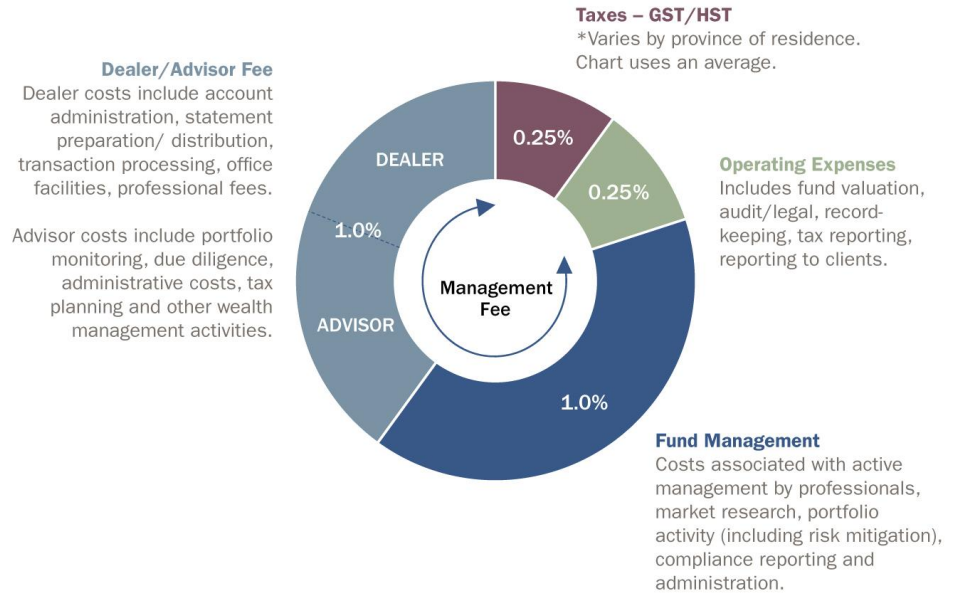
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“Management Fee - The cost associated with fund management, which includes having a dedicated team of professionals who actively research and monitor the fund, making adjustments when necessary to manage risk”

For Canadian equity mutual funds, the average MER generally ranges between 1 percent and 3 percent. Any returns reported by mutual funds are net returns after fees. Mutual funds that are part of a fee-based account often have discounted MERs.

What Makes Up the MER?

The following chart illustrates what the fees paid on a mutual fund, with an MER of 2.5 percent, can comprise:



The Bottom Line

Understanding the costs associated with your investments is important. More important, however, is that you feel you are receiving value for what you pay.

Our objective is to keep your money working as hard as you do which involves fostering investment discipline, managing your portfolio within your level of risk tolerance and maintaining suitable asset allocation. Wealth management also extends beyond investment advice and we have a broader team to support retirement planning, estate planning and succession planning, as examples. Don't forget that this is all part of our ongoing service to you. We can be contacted at any time and are always here to support you.