GETTING THE MOST *(for the least)* OUT OF YOUR INVESTMENTS

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Early in the new year, all securities dealers and portfolio managers registered with any Canadian securities commission will be required to issue new disclosures — which may hold some surprises for you.

As part of an ongoing effort to make the costs (and benefits) of investing clearer to Canadians, the Canadian Security Administrators organization is requiring that all dealers issue annual reports to investors on:

- the actual performance of their investments during the previous year (not the annualized individual investment performance), and
- the amount the dealer earned over the previous year in fees, commissions, trailer fees and other compensation.

The CSA is an umbrella organization made up of the Ontario Securities Commission, the Québec Autorité des marchés financiers and the other eleven provincial and territorial securities regulators. The CSA works to harmonize and improve regulations, to make a complex environment more transparent for investors. This program is called Client Relationship Management, Phase 2 — CRM2, for short.

Performance

The usual measure of annual investment performance is a number that expresses the change in value of a fixed dollar amount of investment over a calendar year. This measurement, called "time-weighted rate of return", is being replaced in the new performance report with a "dollar-weighted rate of return" that informs you of the change in value of your investments during the year. This includes extra investments, disbursements/withdrawals and any changes in market value. You should compare your personal rate of return to the targeted return in your financial plan to determine if you're ahead or behind. For mutual funds, time-weighted returns after costs will still be available, allowing you to compare your investment performance to benchmarks or other funds with similar objectives.

Compensation

Depending on the investment, advisors typically receive a portion of the commissions, up-front payments or trailer fees (ongoing annual payments — you'll see those sums in dollars in the new compensation report). These ongoing revenues are a percentage of your investment: the better your investments perform, the more they earn.

The new reports must include all charges paid directly by the client/investor — trade-related amounts along with those ongoing ones mentioned above. Such fees may appear quite large in dollar terms for some accounts, especially when compared to poor investment performance.

The size of the average Canadian mutual fund account in 2014 was $44,000, while the average stock brokerage account ran to $71,000. For accounts consisting of funds with embedded commissions, the average dealer compensation is between 50 to 100 basis points (0.50 per cent to 1.00 per cent) — about $225 to $700 per year.

To prepare for CRM2, many investment firms have been lowering management fees for many funds, or creating new 'classes' of investments where the cost of fund management is mixed in with other, non-reportable costs. The banks also have been making discovery of investment costs more difficult by offering fund packages, 'robot' advisory services and wrap accounts where total costs to the investor may be higher than they might have been before the effort to improve transparency. Some dealers have increased their portion of revenues from investments from the typical 0.50-1.00 per cent trailer fees on mutual funds to 1.00-1.50 per cent on fee-based accounts.

If you're not clear on how to read your new investment performance or dealer compensation reports, ask your advisor. Ask your advisor's competition. Ask a professional financial advisor who works for a fixed salary, rather than commissions. Look for an advisor who is alive and responsive to your financial objectives, not a 'robo-advisor' offering a limited choice of pre-packaged options.

A member-centred approach

While some investment firms reimburse some of their management expenses (especially to make new funds more attractive to investors), Ottawa-based Tradex's annual rebates have reimbursed over $1 million in management expenses over the past three years. It also reimburses trailer fees for its own funds, lowering costs and increasing returns for its investors.

Association members are eligible to become members of Tradex — a new Association Preferred Partner and Canada's only not-for-profit dealer exclusively available to past and present members of the public service and their families. Tradex's salaried, experienced advisors are available to help you draft a financial plan that meets your objectives. ■

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