
#ladyinvestors
THE MONEY COACH

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Mutual Funds vs. ETFs

presented by

Nanci K. Murdock, C.F.A.

Who am I?

Nanci K. Murdock, CFA

- Over 20 years in the financial industry
- Held the CFA designation since 2001
- Former Head of Marketing, BCA Research
- Blogger and financial literacy advocate

Women live longer, earn less and retire with 2/3 less money than men.

One third of Canadians have no idea what specific investments they hold within their portfolios.

—Blackrock Canada

Only 15% of women could correctly answer the five key financial literacy questions asked in a 2014 capabilities survey by Statistics Canada.

50% of Canadians feel that investing is on par with gambling.

—Blackrock Canada

Zero to Portfolio

Module 1
Introduction to Asset Classes

Module 2
EFTs and Mutual Funds Explained

Module 3
Looking at Your Risk Profile

Module 4
Cash, RRSP, TFSA & RESP Accounts

Module 5
Opening Your First Account

Module 6
7 Keys to Investing Success

Module 7
Interest, Dividends & Capital Gains

Module 8
Monitoring Your Portfolio

Module 9
Rebalancing Your Portfolio

Module 10
Case Studies

Zero to Portfolio

Module 2

EFTs and Mutual Funds Explained

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The Key Differences Between Mutual Funds and ETFs.

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How are mutual funds and ETFs similar?

...both mutual funds and ETFs bundle together securities which provide investors with diversification for their portfolios.

Mutual Funds vs. Exchanged Traded Funds (ETFs)

Key Differences

Mutual Funds

Management - mutual funds are actively managed. Human portfolio managers make all decisions related to investments in the fund.

Purchase - bought directly from a bank, broker or dealer. Mutual funds do not trade on a stock exchange.

Fees - notorious for having complicated, hidden and expensive fees. You can lose upwards of 30% of your future retirement income in opportunity cost and fees. Average MER of 2.25%

Exchange Traded Funds

Management - ETFs are passively managed. A non-human computer selects underlying investments based on a specified algorithm.

Purchase - purchased on a stock exchange. There can be a minimal charge (commission) to buy and sell.

Fees - inexpensive, transparent, fee structure. Multiple studies show passive outperforms over the long-term. ETFs are a low-cost, high-diversification for any investor. Average MER 0.2%.

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1

Active vs. Passive

Active Management

Passive Management

2 Method of Purchase

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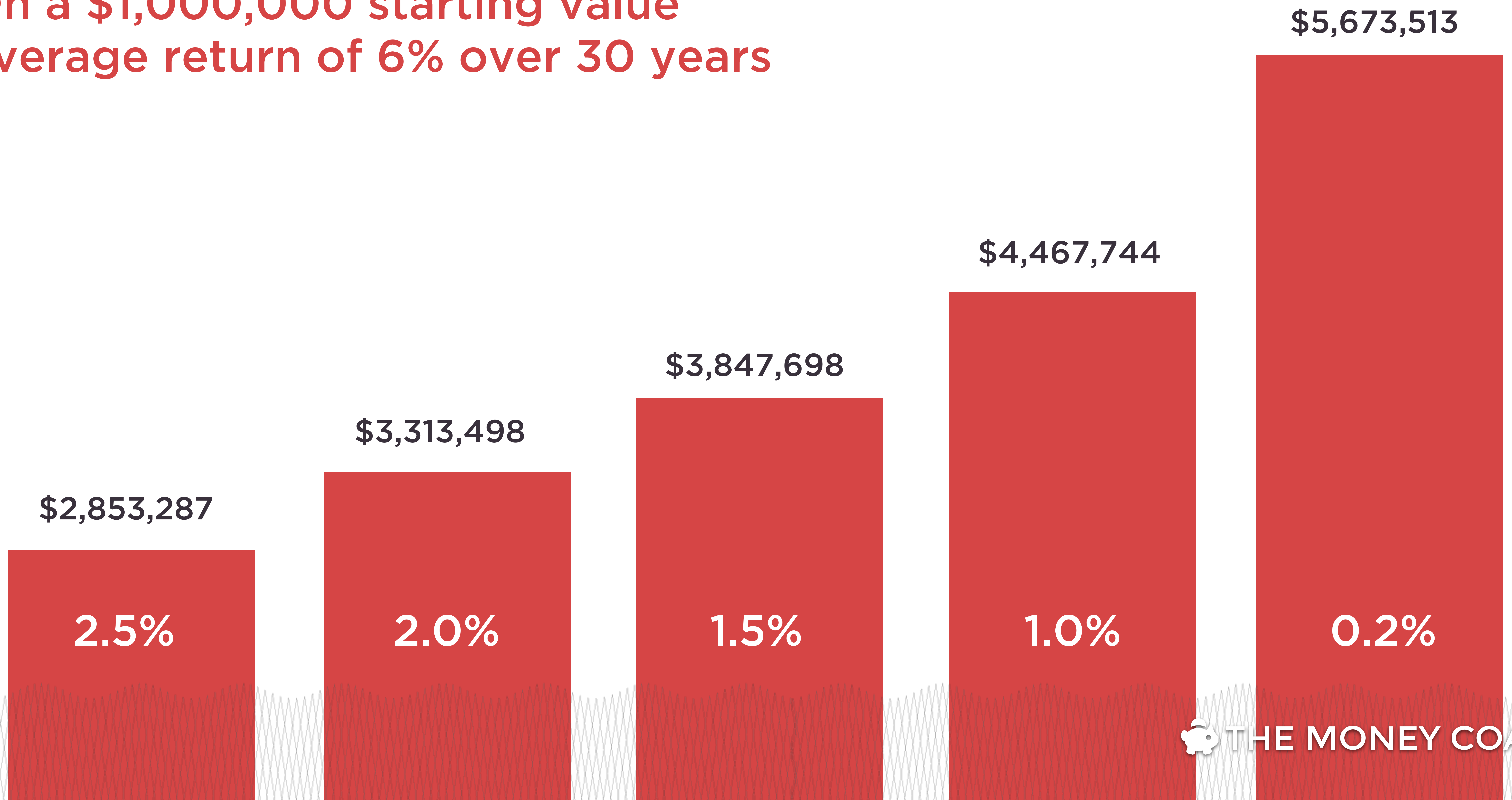
Active Management

Passive Management

3 Do fees really matter?

Impact of MER

On a $1,000,000 starting value average return of 6% over 30 years



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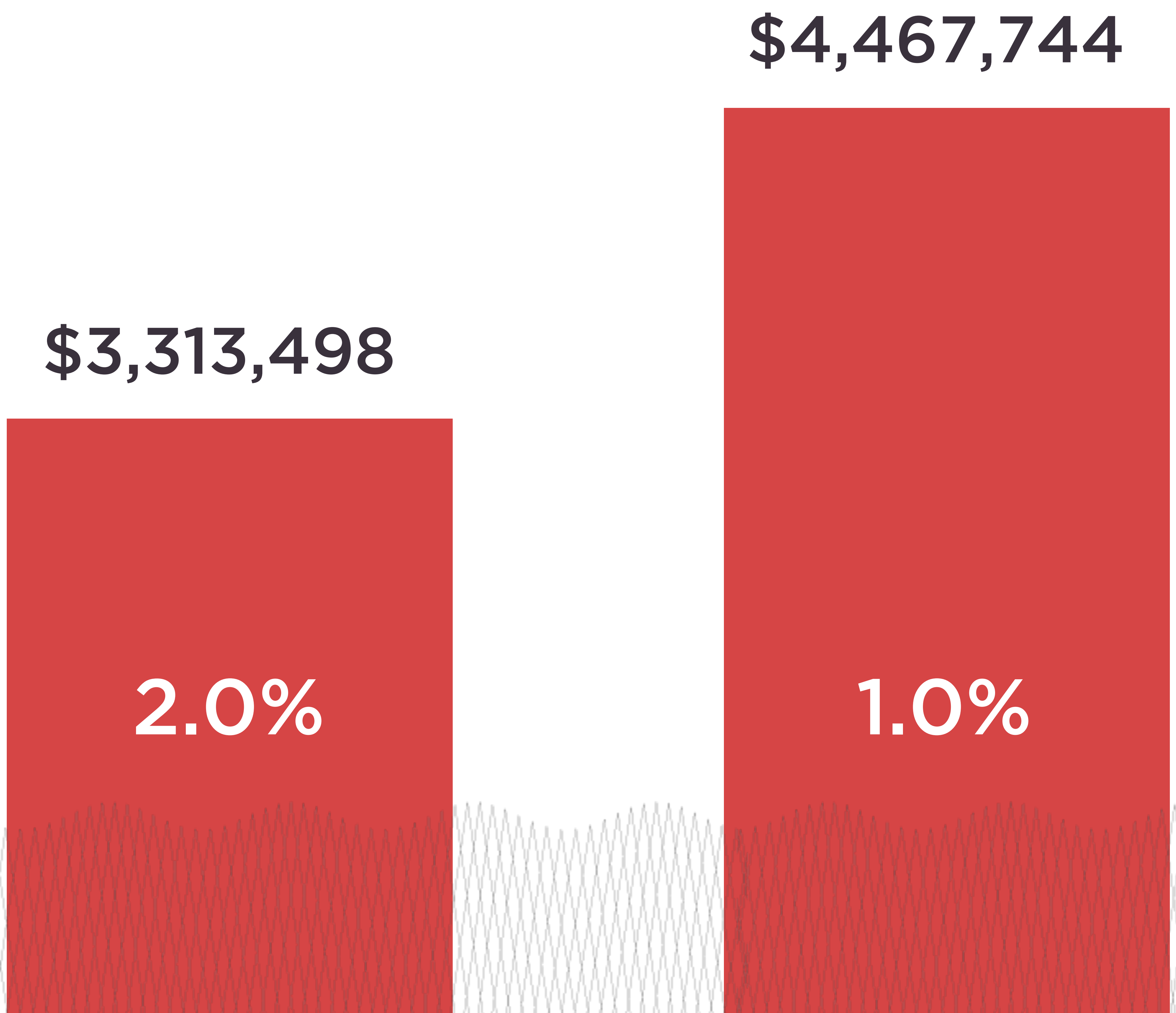

Mutual Fund Stats:

As of January 2017, there is 1.38 Trillion dollars in Canadian mutual funds. One in every four Canadians holds mutual funds. **Average MER 2.25%.**

ETF Statistics:

As of June 2016, there is just over 100 Billion dollars invested in Canadian ETFs with 424 ETFs trading on the TSX. **Average MER of 0.2%.**

The Mutual Fund industry in Canada is 10X larger than the ETF industry.

"...just one simple change to your portfolio can have an enormous impact on what you eat, what you drive, where you travel—or even if you travel—in retirement."

—Nanci K. Murdock, CFA

Tanya Castle, Case Study

- $250,000 starting balance
- $500/month contribution for 30 years
- 6.0% annualized return (30 years)

Tanya Castle

$250,000
starting balance
+ 500/month

0.2% MER

2.0% MER

6%
annualized
return

30 YEARS

Tanya Castle

0.2% MER	$250,000 starting balance + 500/month	2.0% MER
$1,175,399	6% annualized return	$1,901,845
	30 YEARS	

Tanya Castle

Retire at age 65

2.0% annualized return

30 YEARS

$1,175,399 (2.0 MER)

$54,579/year

$1,901,845 (0.2% MER)

$88,313/year

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Would the difference between **$54,579** or **$88,313** each year for 30 years, impact the quality of your retirement?

Would the increased fee and human oversight not obviously mean that returns would be higher?

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Does Active Outperform?

Year	TD CDN Equity Fund (A)	Investors CDN Large Cap Fund (A)	XIU - iShares S&P /TSX 60 Index ETF	Sunlife Blackrock CDN Equity Fund (A)
MER	**2.18%**	**2.59%**	**0.18%**	**1.99%**
2012	6.06%	6.23%	7.92%	7.55%
2013	12.57%	20.56%	13.07%	16.53%
2014	9.31%	11.98%	11.94%	10.3%
2015	-9.36%	-2.65%	-7.81%	-3.55%
2016	19.7%	14.98%	21.21%	13.17%
5 Year	**7.33%**	**8.21%**	**9.14%**	**8.69%**

For the five years ending in 2016, XIU, an index ETF, outperformed the Canadian Equity mutual funds of at least three of the country's largest financial institutions.

* all data from morningstar.ca as of 10/04/2017

Is it even possible for an individual investor to build a diversified investment portfolio with annual fees under 0.2%?

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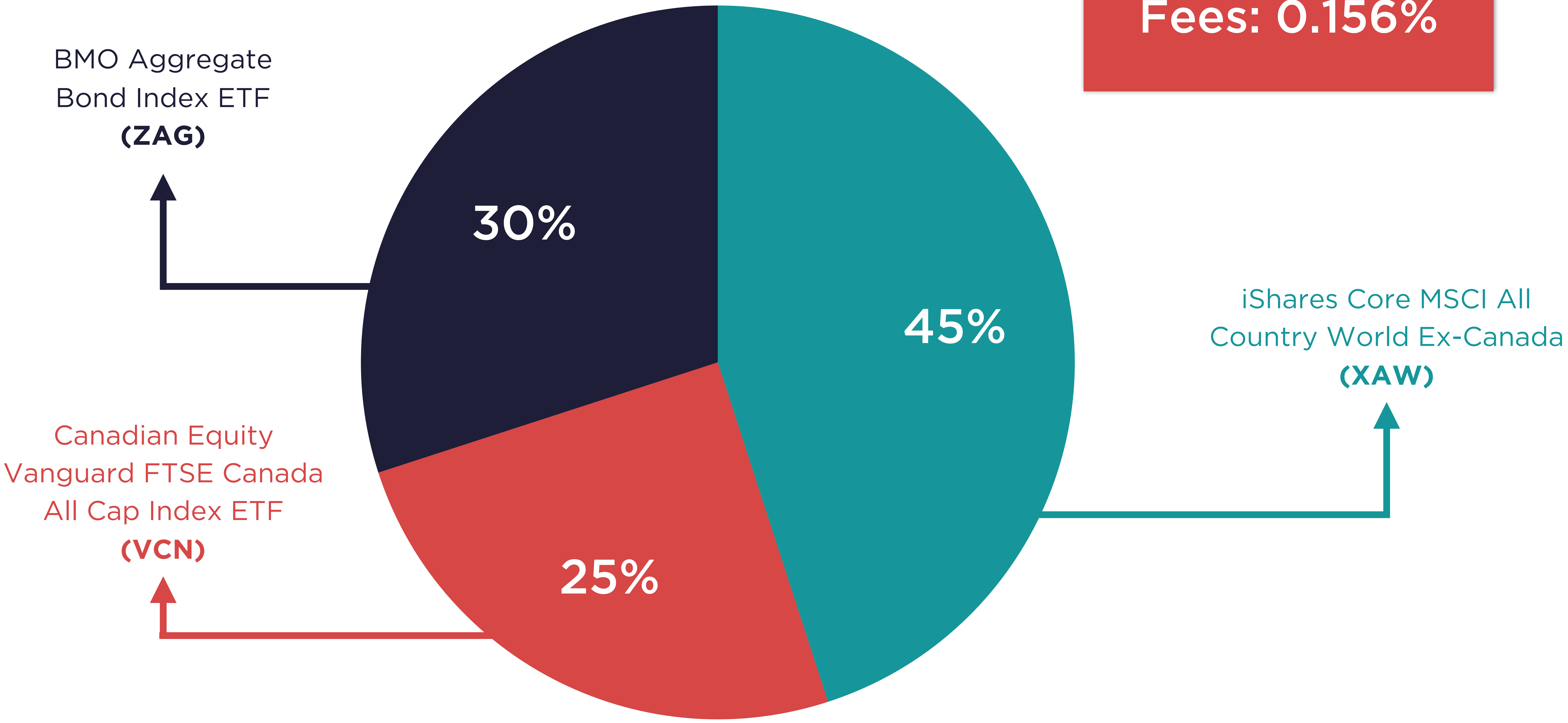
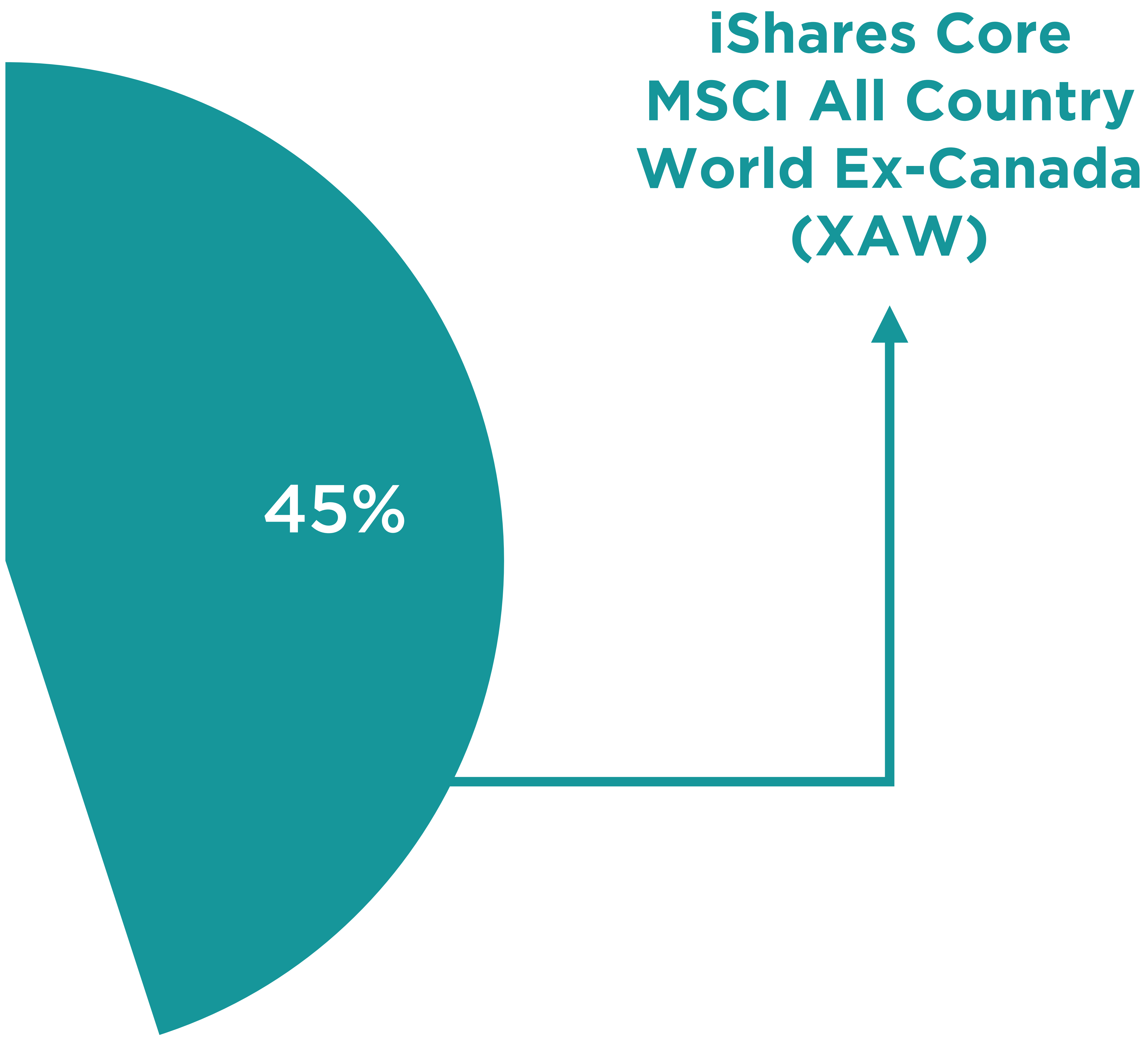
The "Start Simple" Portfolio

Fees: 0.156%

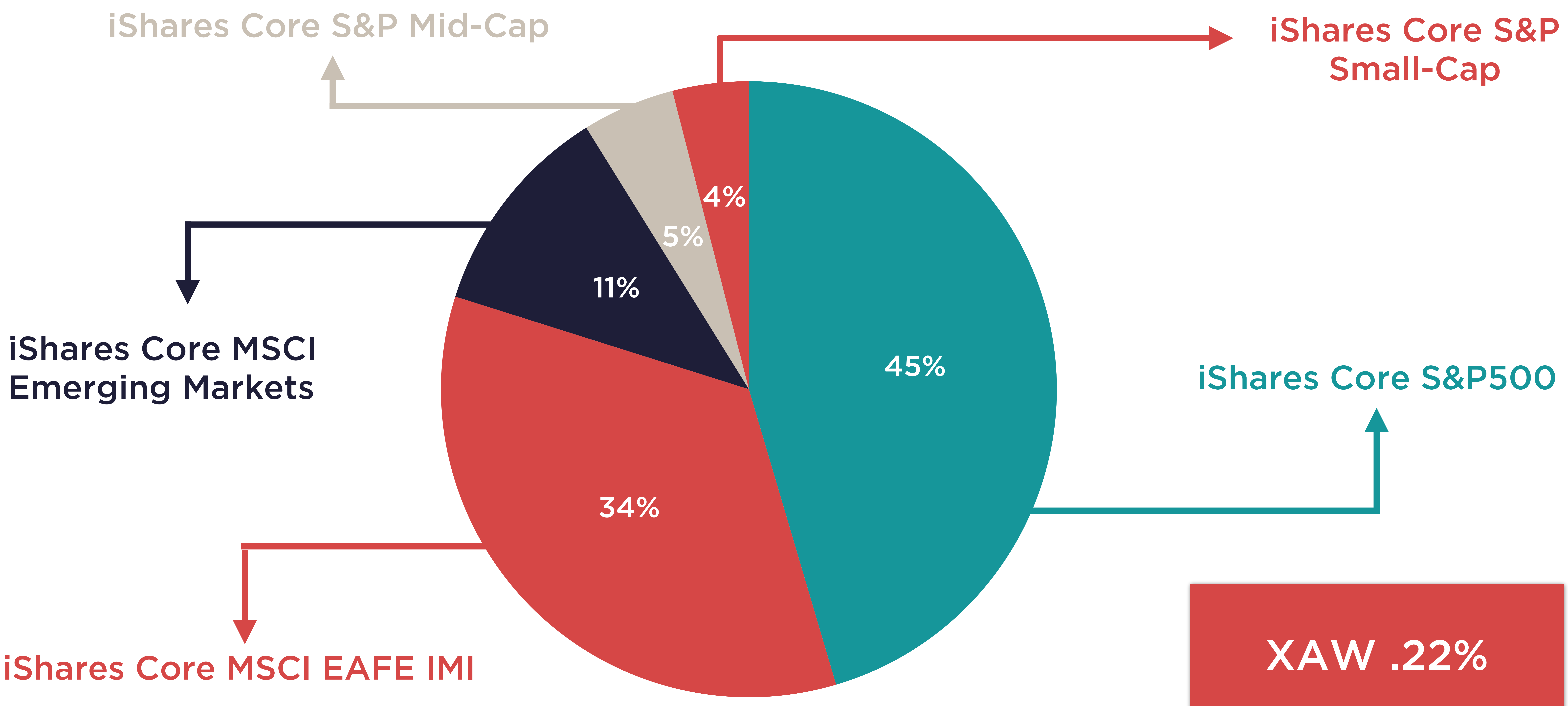


*VCN .06; ZAG .14; XAW .22 as at April 20, 2017 source: Morningstar.ca

The "Start Simple" Portfolio



Incredible Diversification - a single ETF



XAW .22%

In Summary

Management Style

Do not be tempted to believe that active management beats passive management. Over the long term (10 years +), it does not.

Fees Matter

Even a 1% increase in annual management fees can have a devastating effect on the long term value of an investment portfolio.

D.I.Y. Investing

Through just a few index funds or ETFs, you can build a rock solid, low-fee, well-diversified investment portfolio. That said...

The average investor underperformed the S&P500 index by 4.7% (11.96% vs. 7.26%) in 2016.

The number one reason for the underperformance was **behaviour**, with **fees** being a close second.

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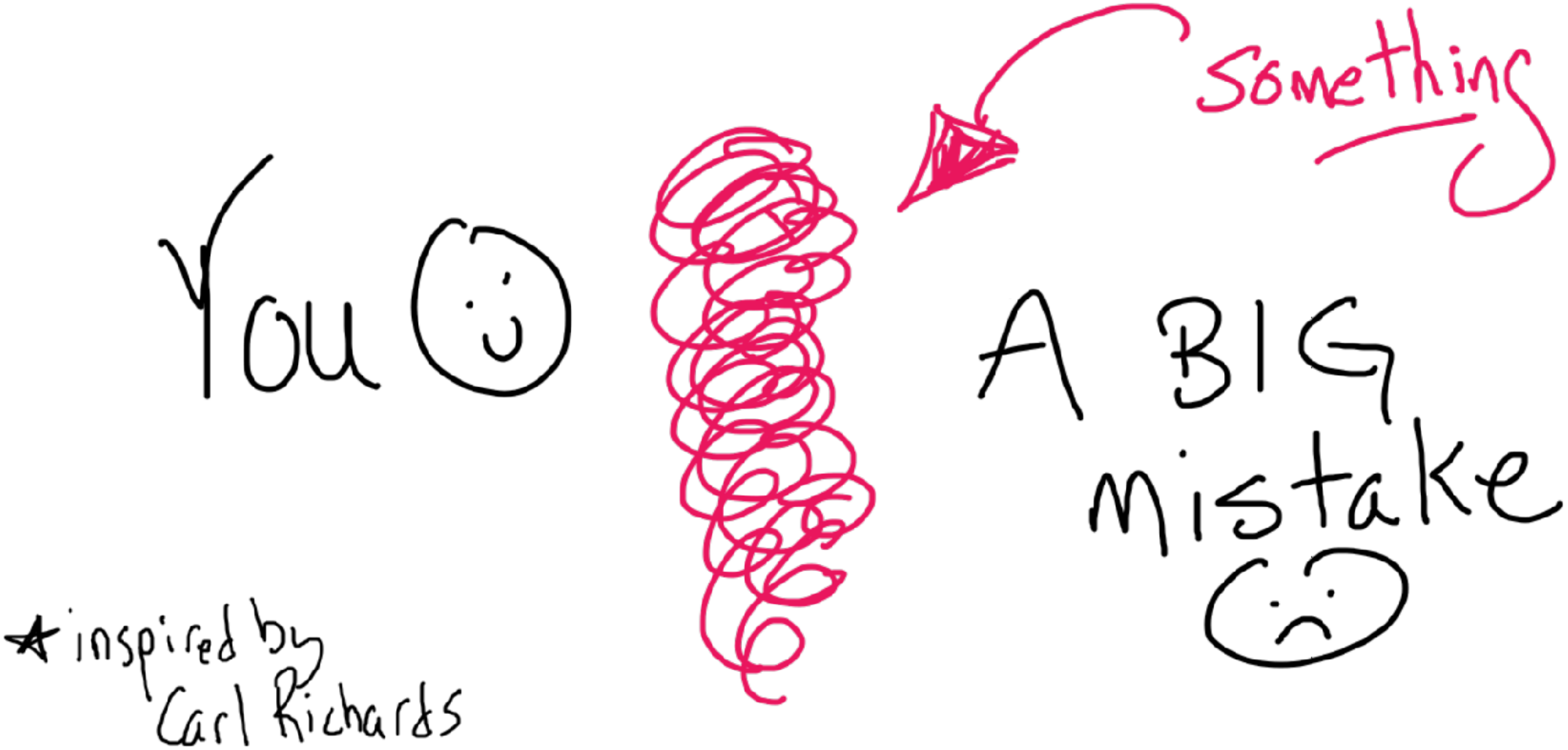
You
something
A BIG mistake
*inspired by Carl Richards


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