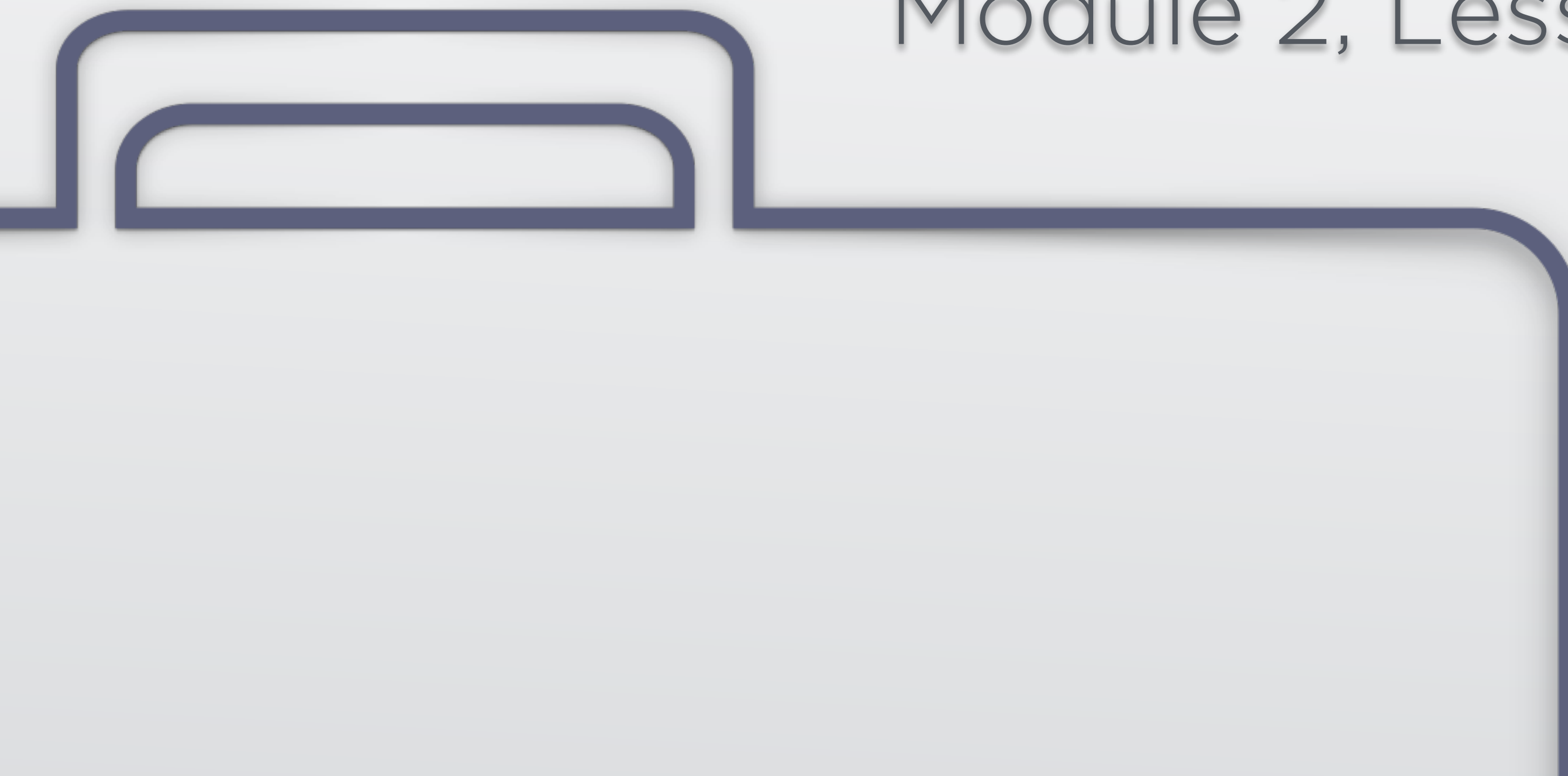


# Welcome

Module 2, Lesson 3



# MEET LUCY B.

Professional Trainer & Speaker



- 📁 38 years old (work/10)
- 📁 Successful corporate trainer
- 📁 Recently raised her rates
- 📁 Recently had first \$7,000 job
- 📁 Rising income and savings

## LUCY'S SAVINGS/INVESTMENTS

- 📁 \$14,000 in mutual funds
- 📁 \$7,000 in a locked-in pension
- 📁 \$28,000 in a savings account



**Just shy of age 40, Lucy finds herself earning over \$180,000, with \$21,000 in investments, and another \$28,000 in a savings account.**

**Large cash balances in your accounts will often trigger a call from your bank to meet with a financial advisor.**



# LUCY'S FINANCIAL PLAN

...making Lucy quite pleased with herself



- 📁 \$49,000 invested in new portfolio
- 📁 Automated \$1,000 monthly contribution
- 📁 \$5,500 to TFSA; \$6,500 to RRSP
- 📁 Ecstatic to have a plan for her future

1

What she doesn't know is she has now made the same costly error as 33% (4.9 million households) of Canadians.

# 2

What she doesn't know is that she has probably just taken the most expensive decision of her lifetime.



3

What she doesn't know is the choice she just took will cost her over \$750,000 (40% of her retirement income).

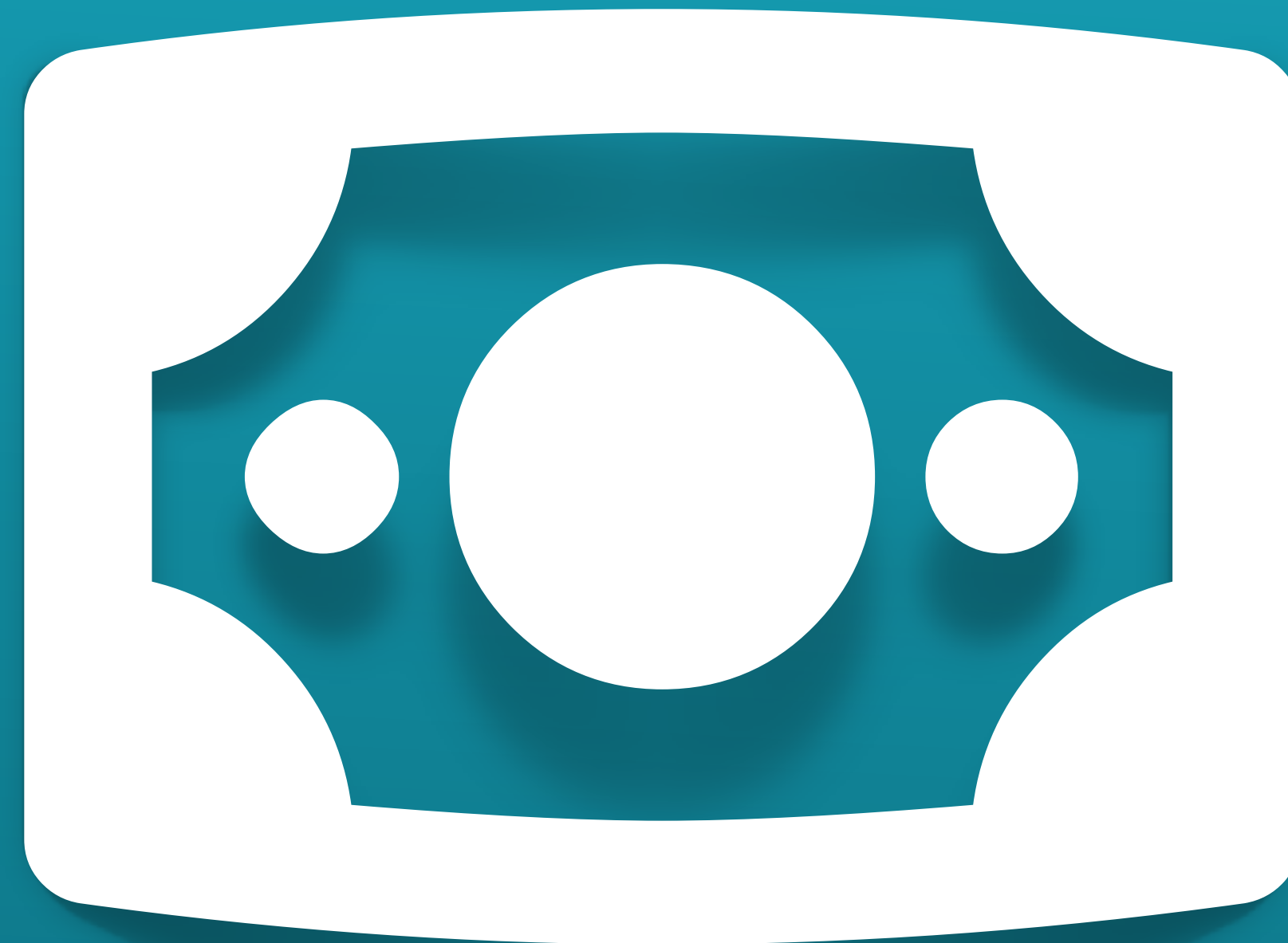


**Excuse me?**


# MUTUAL FUND FEES

Warning: It's not pretty.

- 📁 Load fees
- 📁 Redemption fees
- 📁 Management fees
- 📁 Trading fees
- 📁 Switching fees +++



# MANAGEMENT EXPENSE RATIO (MER)

-  Covers the operating, trading, sales and marketing costs of the fund
-  It is a fee paid by you before your portfolio returns are reported
-  The average equity fund MER in Canada is 2.25% - 2.50%.



**“Canadian mutual funds  
have the highest MERs in  
the world.”**

—2013 Morningstar Research report

Morningstar gave Canada's fund industry an F grade in a 2011 global ranking for having the highest fees among the 22 ranked countries.

A hand-drawn letter 'F' inside a circle, drawn on lined paper. The 'F' is written in a simple, blocky style, and the circle is also hand-drawn. The drawing is centered on the page.

**It was the only country on the list to receive an F.**

**But obviously  
active  
management  
outperforms  
passive  
management.**

**Right?**

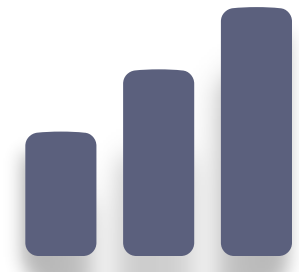




**For the 15 year  
period of 1997-2012,  
index funds  
outperformed  
actively managed  
funds by 80% - 90%.**



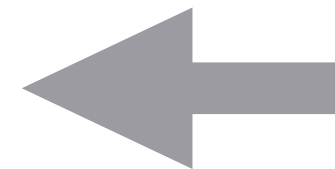
# MUTUAL FUNDS



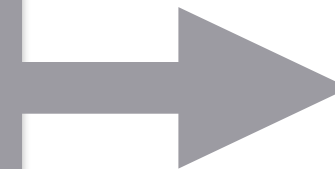
# EXCHANGE TRADED FUNDS (ETFs)



**ACTIVELY MANAGED**  
(Portfolio Manager and team)

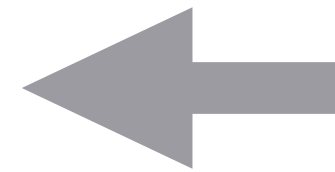


**Management**

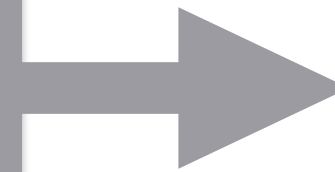


**PASSIVELY MANAGED**  
(computer algorithm)

Bought directly from bank or mutual fund dealer.

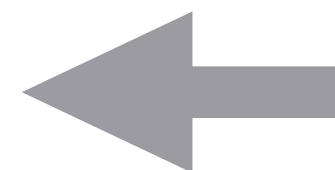


**Purchase**

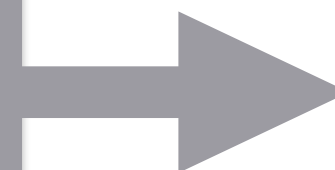


ETFs are purchased on a stock exchange.

Notorious for having complicated, hidden and expensive fees. (2.5%)



**Fees**



Ultra-low annual fees (often under 0.2%)

**“New research suggests that  
Canada’s mutual fund  
industry has earned the  
dubious distinction of being  
the world leader in closet  
indexing.”**

—Indexing and Active Fund Management:  
International Evidence

**“Whether out of ignorance or inertia, mutual fund investors seem content to pay the price of “embedded compensation” just so long as they don’t see separate itemized bills. To me, this is like sticking with the horse and buggy at the dawn of the automobile era.**

—Jonathan Chevreau, FINANCIAL POST, December 6, 2011

# FRONT PAGE HEADLINES

Over the last 2-3 years

Dear Canada: Your mutual fund fees still stink

THE GLOBE AND MAIL

MoneySense

Canadian mutual fund investors: Wake up!

Mutual funds don't deserve the bad rap they get in industry circles, investors do.



INVESTMENT FUNDS  
Vanguard's low-cost index funds removing billions from U.S. financial industry

ERIC BALCHUNAS

MoneySense

Canadian mutual fund assets total more than \$1 trillion

CBCnews | Business

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OPINION | Amanda Lang: Investment fees are too high, and it's up to us to change that

Canadians pay little attention to investment fees, which could be eating into our savings  
By Amanda Lang, CBC News | Posted: Feb 25, 2015 5:00 AM ET | Last Updated: Feb 25, 2015 8:03 AM ET

FINANCIAL POST

INVESTING

TRENDING

Oil | Housing Market | CP Rail | Bill Morneau | Valeant | Apple | Retirement | Bombardier

Mutual funds still popular with Canadians, but why?

**As of October  
2015, Canadians  
held 1.23 trillion  
dollars in  
mutual funds.**



# THREE REASONS WE STILL BUY MUTUAL FUNDS

- 📁 **Lack of financial literacy**
- 📁 **We don't talk about money**
- 📁 **Marketing budget of the industry**

# Zero Portfolio

with Nanci K. Murdock, CFA



# THREE REASONS WE STILL BUY MUTUAL FUNDS

-  **Lack of financial literacy**
-  **We don't talk about money**
-  **Marketing budget of the industry**



**“44% of Americans  
would rather discuss  
death, religion, politics  
or their personal health  
than their financial  
situation.”**

—2013, Wells Fargo Bank  
financial health study

# THREE REASONS WE STILL BUY MUTUAL FUNDS

- 📁 **Lack of financial literacy**
- 📁 **We don't talk about money**
- 📁 **Marketing budget of the industry**

0000000000

0000000000

**2.25%**

0000000000

0000000000



**“We’re all creatures of habit, but mutual funds are mostly inferior mouse traps. There are better options out there.”**

—John DeGoey, Burgeonvest Bick Securities, Inc.

# LUCY'S NEW PORTFOLIO

## ABC Bank Fund Portfolio

- 📁 U.S .Equity Fund (25%)
- 📁 Canadian Equity Fund (50%)
- 📁 Canadian Bond Fund (25%)



# MUTUAL FUND MERS

## Asset Class

**2.70%**



**U.S. Equity**

**2.69%**



**Canadian Equity**

**1.82%**



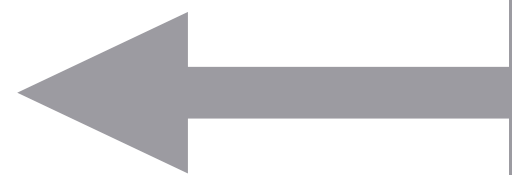
**Canadian Bond**

**MUTUAL FUND  
MERS**

**ETF MERS**

Asset Class

**2.70%**



**U.S. Equity**



**.15%**

**2.69%**



**Canadian Equity**



**.06%**

**1.82%**

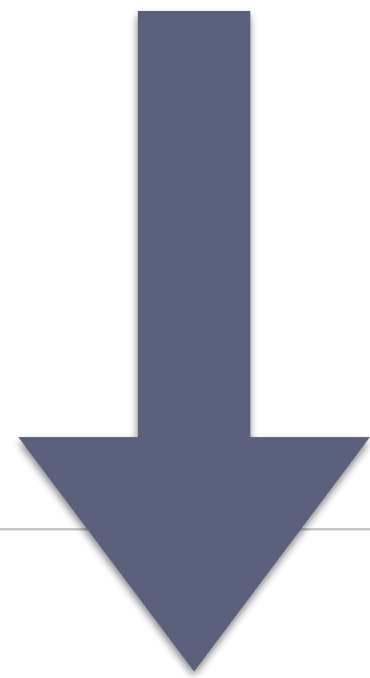


**Canadian Bond**



**.14%**

**2.47%**



**\$?**

**Future value  
(no fees)  
at 8%/30 years:  
\$2,036,146**

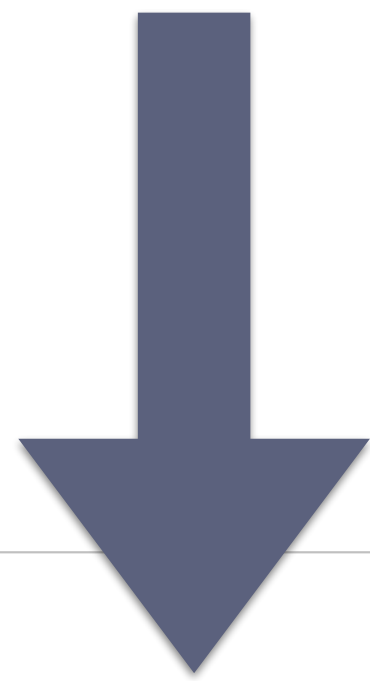
**.105%**



**\$?**



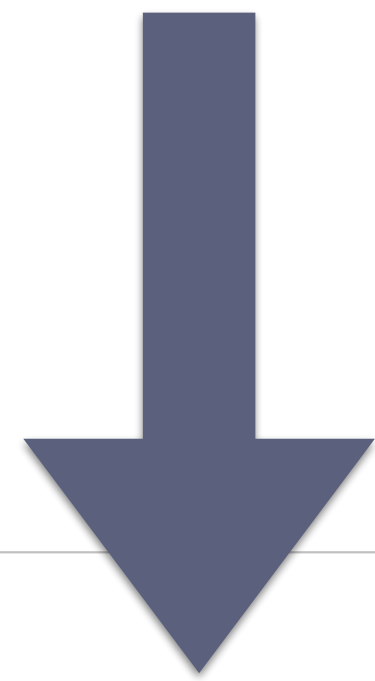
**2.47%**



**Future value  
(no fees)  
at 8%/30 years:  
\$2,036,146**

**\$1,164,738**

**2.47%**



**\$1,164,738**

**Future value  
(no fees)  
at 8%/30 years:  
\$2,036,146**

**.105%**



**\$1,961,276**

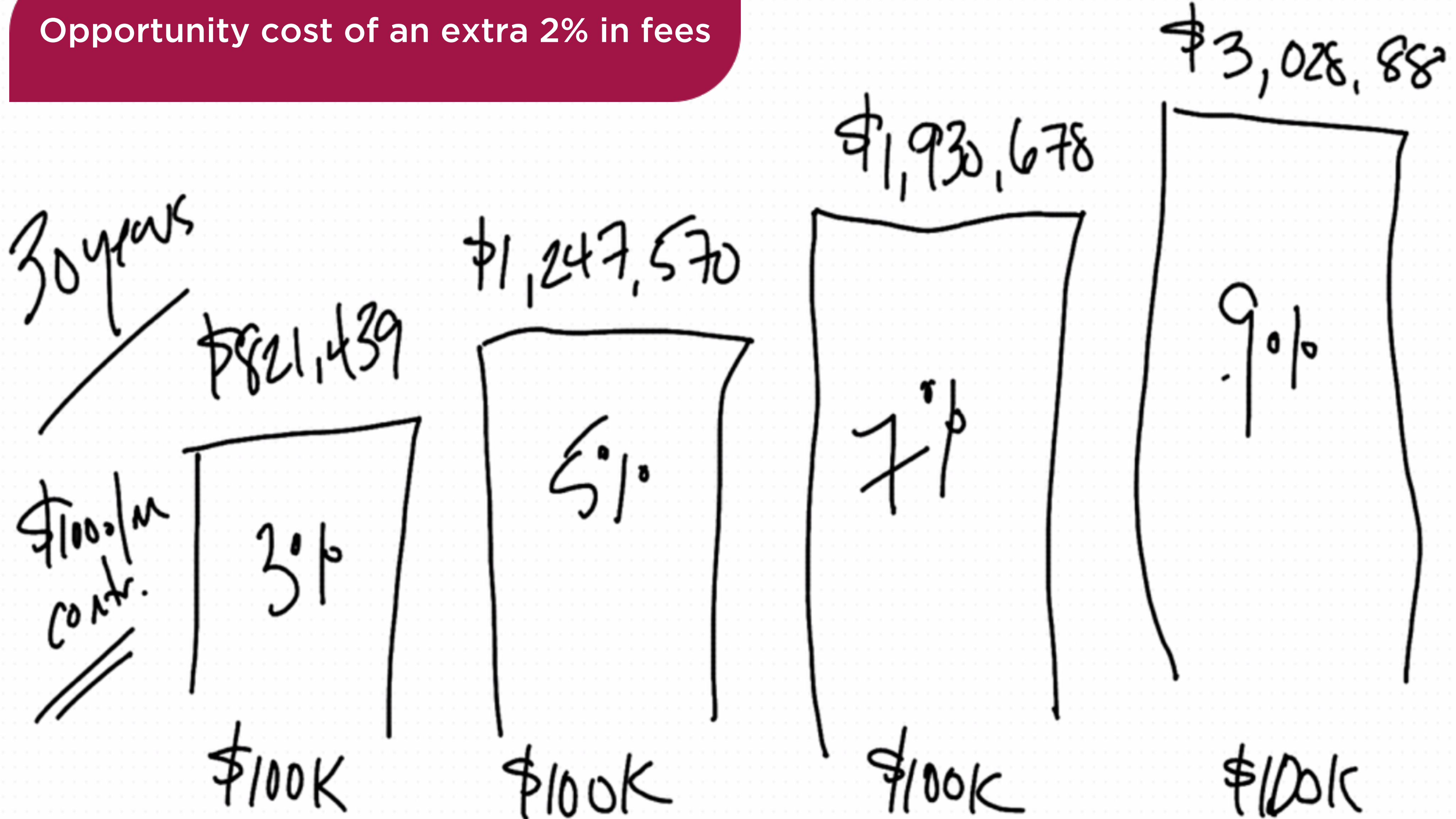
**Making the choice to purchase  
high-fee mutual funds over ETFs  
30 years ago, has cost Lucy  
\$796,538.**

**If Lucy had invested in low cost ETFs,  
her annual income until age 98 would  
have been \$97,148.**

**Instead, her annual income for the  
next 30 years will be \$57,693.**

\*assuming 3% annual growth

# Opportunity cost of an extra 2% in fees



**Canada's mutual fund fees are so high that Canadians can expect to work up to 11 years beyond age 65 just to make up for higher fees.**

—Canadian Centre for Policy Alternative, February 2015

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Mutual funds still popular with Canadians, but why?

The image features two red Adirondack chairs on a sandy beach, with the ocean and a grey sky in the background. The text is overlaid in the center of the image.

**Please make sure that the  
only retirement you are  
funding is your own.**



# Zero Portfolio

with Nanci K. Murdock, CFA

