

Financial Focus

Figuring Out How Much You Pay

While I am not one for New Year's resolutions, the start of a new year is a great time for review and reflection. That is certainly the case in the financial world, January is the time to review the details of the prior year and make the necessary changes. In fact regulators have mandated reports to assist in this effort. January 2018 will be the second year we receive these reports. The reports cover a few topics, however in my view the two most significant are fees and performance. I believe in transparency and think the mandatory disclosures are good for the industry and helpful to clients. However, since this is only the second time we receive the reports, deciphering them can still be confusing.

For starters each of the new reports covers one account. If you have a RRSP and a TFSA, you will receive a rate of return report for each account and a fee report for each account. Both reports contain financial jargon that may be difficult to understand, however I believe the report that creates the most confusion is the fee report. In my opinion clients want to know their total fee, the total amount of money that leaves their pocket. I believe figuring out how much you pay is an important part of any financial review. In order to determine whether a service is good or bad you need to know how much it cost. Unfortunately the mandatory report does not answer that question. The report does not disclose the client's total fee. The objective of the report is to disclose the amount of money the financial firm receives, this amount is listed on the report as a dollar figure and as a percentage of the client's account. However this amount may not be the client's total cost. Financial products often include buried management and administrative costs, which are not disclosed on the fee report.

To help explain the report I like to use an analogy, imagine you are building a new home. You have picked a builder and you and the builder have agreed that your desired home will cost \$400,000. The builder will not keep all that money, they will likely have electricians, plumbers and other sub trades to pay. The builder may only keep a portion, let's say \$250,000. The fee report will show the amount the financial firm receives, or in my analogy the \$250,000 the builder keeps. The report will not show the amount the sub trades receive. In addition the fee report will not disclose the total cost of the home, it will not list \$400,000, it will only show the \$250,000 the builder keeps.

In my opinion, because the reports do not include the cost of what I refer to as the sub trades, the reports are not comparable. Comparing your fee report with that of your neighbours could be comparing apples and oranges. Each financial firm may have a different way of handling an investment portfolio. In fact often within a financial firm the investment approach can vary from account to account. Since the

report does not focus on the total cost of your portfolio, I do not believe it is comparable.

I encourage folks to use these reports to increase the dialogue with their advisor. It is your money, ask questions! Figuring out how much you pay should be easy. If you find the report confusing or would like to know your total cost – ask.

Unfortunately there are firms in the financial industry that barely disclose any fees. Although these reports are not perfect I am in favour of them. I believe enforcing a minimum level of transparency on financial firms will prompt clients to ask more questions and hopefully allow clients to have a more transparent and open review of their finances.

Clinton Orr B.Comm (hons.), CIM, CFP, DMS, FMA lives in Beausejour and is an Investment Advisor at Canaccord Genuity Wealth Management

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