SERVING WHISTLER AND PEMBERTON

YOUR MONEY

APRIL 17, 2008

Kim Inglis, BCom

Are DSC Funds Right For You?

Deferred Sales Charge. Do these words sound familiar? If you have grown accustomed to seeing the abbreviation DSC in your monthly investment statements you may be among the many Canadians who have had mutual funds set up with deferred sales charges - whether or not you fully understood the implications.

A deferred sales charge (DSC) is a type of mutual fund sales fee where the up-front commissions are waived and, as long as you don't sell the fund, you only pay the annual management expense ratios. However, there is a major caveat: typically you are locked in for six or seven years.

The original concept of DSC funds made some sense. You could apply the tried and true mandate of 'buy and hold' investing to generate superior long-term returns in funds managed by investing heavyweights. And if you held the fund until the end of the redemption schedule you managed to eliminate sales fees, ultimately enhancing your return.

What could possibly go wrong? In a six or seven year period? Plenty. For starters, your heavyweight manager might move on and be replaced by a welterweight. And there is the unpredictability of the investing world. The high-performance first quartile fund you originally purchased could change quite quickly into an underperforming fourth quarter fund. The merits of DSC funds are undermined as soon as things start to turn sour.

If your DSC fund is under-performing or if your situation changes and you choose to sell the fund, you will be subjected to a punitive redemption schedule. Depending on how long you've held the fund, you may be charged as much as 6% in redemption fees. Even with as little as a year remaining in your term, you may still be charged upwards of 3%. Ouch.

Using these typical figures, if you invested $20,000 in a DSC fund, it could cost you anywhere from $600 to $1,200 in redemption fees to get out *and it makes no difference if the fund is underperforming!* Double ouch. Your bottom line is directly affected by the fees you pay and these early DSC redemptions can certainly be an expensive drain.

If you are already in DSC funds and believe they are constraining your portfolio, do not panic. All is not lost. You have a couple of options: you can take advantage of the yearly 10% redemption allowance or you can switch within the fund family to a better performing product. The fine details vary between fund companies but the basic premise remains the same. Neither option is a perfect solution but, at the very least, they can help minimize your DSC exposure and return some flexibility to your portfolio.

It's worth talking to an advisor as there are important questions to explore, beginning with "Why are you in DSCs at all?" Do they really serve your interests or were you were placed in them for the wrong reasons? Are they performing as well as when you originally invested in them? Do your DSC funds fit under the 'buy and hold' mandate or are they more short-term in nature and therefore not appropriate for a DSC set-up? These are some of the important questions to consider as you move forward with your investments. Much less restrictive options are available and I encourage you to explore the alternatives.

Kim Inglis is an Investment Advisor. The views in this column are solely those of the author. www.kiminglis.ca