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Trailer fees: Clients should know the price tag

Lately, buzz in the investment world has revolved around trailer fees paid to advisors. This follows a recent roundtable discussion held by the Ontario Securities Commission and the release of a report late last year from the Canadian Securities Administrators deliberating the issue.

Currently, some advisors are compensated by mutual fund companies via trailer fees embedded in management expense ratios. This is typically done in lieu of charging clients a separate fee for investment services and professional advice. For the most part, these advisors do not earn a salary but instead rely on this compensation structure.

Investor advocates argue that this practice lacks the transparency investors need to make educated decisions about their portfolios. I believe the argument has merit, although I think the focus is somewhat misdirected and the discussion should be wider than trailer fees.

The key issue isn't whether or not advisors should be paid. Advisors provide a professional service and should be compensated according to the quality of their advice. Simply put, fees are paid in any industry, trade or profession for services rendered. Nobody works for free.

The focus of the debate should instead be directed toward educating investors and creating an environment where fees are openly discussed and completely disclosed. Investors should be fully

apprised of the cost of doing business and they should understand what they are getting in return for the fees. These are important issues, which must be addressed accordingly.

Surveys have shown that many investors are unaware of the fees they pay. The number of investment products has increased, translating into a variety of fees with some embedded in the cost of the product and others charged separately. It's no wonder investors are confused.

To remedy this, investors should have the entire fee structure clarified in detail and provided in writing. When contracting for any kind of service a customer gets a price, and investing should not be different. Neither should advisors wait for investors to ask before disclosing fees. Costs should be part of the discussion before the investor signs on as a client.

Advisors should fully explain what the fees are paying for. What services can the investors expect in return? Is the fee associated purely with the cost of the investment transaction or will other services be included, such as financial planning? All too often fees are an afterthought that is only discussed when an issue arises. This needs to change. Advisors must take a more active role in the fee education process.

No matter what the industry, there is always a cost of doing business. However, in the investment

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world, a change is needed and that change is transparency. Investors must fully understand their costs so they can be confident in their investments and can make informed decisions. Without that openness the industry will remain

mired in distrust and there will forever be a disconnect between advisor and client.

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