THE GLOBE AND MAIL

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The nitty-gritty: How to discuss fees with your investment adviser

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Don't put off this important conversation until the new fee disclosure rules take effect in 2016, and find out what you're getting for your money

A summer from hell awaits the investment industry in two years' time.

New securities regulations will require a major upgrade in the level of fee disclosure provided to clients starting July 15, 2016. Oh-my-God moments are guaranteed as investors open account statements that for the first time put a dollar value on fees paid to investment advisers. There will be blood, or at least some testy adviser-client exchanges. Investors, avoid the drama and disruption by scheduling a meeting with your adviser this summer or fall to discuss fees. Here's an agenda for your meeting that you can send in advance to your adviser.

OBJECTIVE

To better familiarize myself with the fees that you, the adviser, are charging and thereby become more engaged in managing my money. I will look as much at the value I'm getting in return for the fees I'm paying as much as the dollar amount. We may have covered this ground before in previous conversations, but I think it's worthwhile to go over it one more time.

AGENDA ITEMS

1. Fees paid to you, my adviser

I understand that you provide various services, and that there's a cost for this. Please explain how I'm paying you, and how much, both in percentage and dollar-value terms.

Background for your meeting: You're paying your adviser in one of three ways: Through an annualized fee of roughly 1 to 2 per cent of your account value billed directly to your account on a monthly or quarterly basis; through trailing commissions that are buried in the cost of your mutual funds and paid directly by fund companies to advisers; or, through commissions on the purchase and sale of investments. Trailing commissions are typically 1 per cent for equity funds and 0.5 per cent for bond funds. If you're invested in funds with higher trailers, ask for the rationale.

2. Services rendered

Please list all services you provide clients like me in exchange for fees charged.

Background for your meeting: Let your adviser answer in her or his own words and then compare to what you're actually getting. Investment recommendations and portfolio monitoring are not sufficient to justify that 1- to 2-per-cent account fee, or typical trailing

commissions. Financial planning, whether through a written plan or detailed conversations, should be guiding your investments. Your investment results should be monitored at least once yearly for not only performance, but also progress in meeting your financial goals.

3. Deferred sales charge (DSC) mutual funds

Do I own any of these and, if so, why?

Background for your meeting: A DSC fund costs nothing to buy, but can only be sold by paying fees that might start around 6 per cent and gradually decline to zero over seven years. We should all invest for the long term, but life is too full of surprises to allow yourself to be pinned down like this. Find out your adviser's justification for selling you DSC funds, and then explain that you don't want any more of them. One of the more egregious things an adviser can do to a client is take money from a fund where the DSC has expired and reinvest in a new DSC fund, thereby restarting the clock for redemption fees.

4. Fees I'm paying on my investments

I understand that in addition to the commissions and fees I pay you, my adviser, there are also fees embedded in many of the investment products I own. Let's look at how much these fees are, and how they compare to both the average for products of the same type and low-cost leaders in the same category.

Background for your meeting: If you're in a fee-based account where you pay 1 to 2 per cent of your account value, then ask about the additional fees charged on any investment products in your account. Your total cost of investing is your account fee plus the cost of your investments. In that light, fee-based accounts look a lot better with low-cost exchange-traded funds than they do with pricier mutual funds. Note: Fee-based advisers should be using F-class funds, with the trailing commission removed to prevent "double-dipping" on fees.

If your adviser is compensated through trailing commissions on mutual funds, then ask for a report on the management expense ratio (MER) for the funds you own. Trailing commissions are folded into the MER, along with the various costs of running a fund. Don't buy the argument that high fees are justified by high returns. Fees are constant, while returns can slump.

5. What annual administration fees am I paying?

I know that investment firms typically charge annual administration fees for registered accounts of all types – how much am I paying on my registered retirement savings plan, registered retirement income fund, tax-free savings account and/or registered education savings plan?

Background for your meeting: Annual fees that can run to $100-plus are typical, though TFSAs are sometimes fee-free.

6. What am I paying to buy or sell stocks, ETFs, bonds and mutual funds?

This one's for investors who pay their advisers through commissions on the trading of stocks, ETFs and other investments.

Background for your meeting: Stock trading commissions are set according to the rates at your adviser's firm, with lower costs for larger accounts. In a fee-based account, you should receive a set number of trades as part of your regular account fees. Advisers are also paid for sales of bonds and guaranteed investment certificates.

7. What am I paying to withdraw money from my accounts?

Please list the fees that apply if I withdraw money from a registered account of any type.

Background for your meeting: Withdrawal fees on RRSPs, which are mainly a savings vehicle, can be as much as $50 or more. Fees are less prevalent with RRIFs, RESPs and TFSAs, which are geared for making withdrawals as well as deposits.

Optional

8. What fees would apply if I moved my account?

How much would your firm charge me to move my account to a different adviser?

Background for your meeting: Fees of $100 or more would be typical. If you do move, ask your new adviser to reimburse you.

WRAP-UP

A final chance for you, the adviser, to remind me of the value of the services I'm getting in return for my fees.