



## Options for Do-It-Yourself Fund Investors

Jeff Buckstein

**I**n order to get the best value-for-money, mutual fund investors with a do-it-yourself bent need to do their homework to determine their best investment options. Of course, the funds they choose are of paramount importance, but so is the ability to select the right dealer, who may offer several advantages or disadvantages depending on the client's needs.

Two of the areas investors need to consider, for instance, are services available and fees. For some companies, that consideration may involve a trade-off; generally speaking, increased services mean higher fees. So, those who want to save might want to think about a firm that offers fewer services.

But not always; some companies do provide complementary services to their customers without charge. And that can be beneficial because, even for those who prefer as much autonomy as possible in their investment decisions, it can be hard to monitor the thousands of funds available without the assistance of a trained professional eye or, as some institutions provide, an expert software program.

Here is a sampling of certain features that six Canadian financial institutions, some of which are not as well known, have to offer their customers.

### Portfolio4less.com

This online site was launched in August 2005. The firm, which only deals in mutual funds, is licensed to operate in every province and territory across Canada.

The vast majority of customers deal with Portfolio4less.com online, although there are some local clients who prefer personal interaction with the Vancouver-based firm (604-257-4745 or 866-466-4745).

Portfolio4less has created six proprietary portfolios for investors with a variety of investment styles from conservative to aggressive, with funds chosen from over 40 Canadian mutual fund companies. But, says co-founder Paul DuMoulin, "we also know there are going to be people who've done their own research" that want to select their own portfolio. "And that's fine. We have a number of clients who come to us and want to choose their own investments."

Portfolio4less customers also have access to several thousand third party mutual funds and can mix and match among those if they choose.

Mutual funds purchased through Portfolio4less are effectively no-load funds (some can be front-end loaded at zero per cent), meaning that investors are not charged a commission upon purchase or sale. There are no transaction costs unless an investor tries to redeem a fund within 90 days of purchase. Often an administration fee of about one per cent will be charged in those circumstances.

Portfolio4less does offer certain services, including a no-fee rebalancing service, to all customers with an account balance of at least \$50,000. For example, notes Mr. DuMoulin, "if somebody has 50 per cent of one fund and 50 per cent of another and they want to rebalance every time one of the funds increases by 10 per cent, we can put that in place and contact the client to rebalance."

"We try to take all the pressure off clients," most of who are making their own investment decisions, says Mr. DuMoulin.

Clients with account balances of under \$50,000 must pay a trustee fee of about \$75 a year.

Otherwise, the only fee that investors face is the annual management expense ratio (MER), which are set by, and netted off the fund return by its managers. That rate typically ranges from about 1.9 per cent to 2.4 per cent of the outstanding fund balance when applied to the six proprietary Portfolio4less portfolios.

The only source of Portfolio4less.com's revenue is from the trailer, or service fees, paid by the fund company to the investment dealer.

### Tradex Management Inc.

This Ottawa-based firm was founded in 1960 by representatives of then-named federal departments of External Affairs and Trade and Commerce so that Canadian diplomats posted overseas could continue to invest in Canada, hence the company's name.

Tradex began by offering proprietary mutual funds to just federal civil servants and their families; these Tradex

funds are now available to civil servants and relatives of all levels of government. Since 2000, the firm has also acted as a third party dealer, allowing clients (including those who don't work in government) to select from a full complement of about 5,000 mutual funds from across Canada.

However, Tradex is only authorized to act as a dealer in Ontario and Quebec.

Unlike many of its competitors, Tradex does not offer online trading services, although customers can view certain accounts online. It does, however, provide full flexibility in terms of alternative methods of communication, including e-mail, regular mail, phone, fax, or in person.

Tradex offers three proprietary mutual funds (their own) to its civil servant clients and their families. The "big one" explains Blair Cooper, the company's Ottawa-based senior vice-president of sales and marketing, is its Tradex Equity Fund, which dates back to the firm's inception. Last year, its MER was 1.19 per cent.

The other two proprietary funds are the Tradex Bond Fund and Tradex Global Equity Fund. The MER on those two funds in 2006 was 1.22 per cent and 2.54 per cent, respectively.

The minimum purchase amount on all Tradex funds is \$1,000. Third party limits would be set by the individual fund company.

All third party and proprietary funds are effectively no load; clients may even transfer in outside accounts at no fee, although clients must pay a MER established by the fund company. Generally, Tradex makes its money off the trailer fee.

"One advantage we offer is that some of the fund companies we deal with have what they call a D-class of fund, whereby we at Tradex agree to take one half the trailer fee. So we take a 0.5 per cent, instead of 1 per cent trailer fee, and the fund company passes on 0.4 per cent of that savings to the client," Mr. Cooper says.

Tradex provides clients with portfolio reviews and financial and retirement forecasts without a fee. Contacts: 613-233-3394 or 800-567-3863, [www.tradex.ca](http://www.tradex.ca)

### **Sterling Mutuals Inc.**

This Windsor, Ontario-based firm was founded in 1996. It currently services Ontario, Manitoba, British Columbia and Alberta and is expecting to open in Nova Scotia in the early summer of 2007. In addition to its self-serve discount operations, Sterling also has full advisory service branches across each of the provinces it operates in.

Do-it-yourself mutual fund investors have a full slate of choices—about 6,000 mutual funds from more than 200 fund families—at their fingertips. There are also a variety of ways they can access Sterling to complete their transactions. For instance, they can trade online, by fax, regular mail, and by phone, says Rocky Ieraci, the company's vice-president.

Sterling does not offer proprietary mutual fund products; instead customers have access to the aforementioned full spectrum of third party products available in Canada. These are no load for the customer; Sterling simply lives off the trailer fees provided by the fund managers.

Some funds, such as those provided by Philips, Hager & North, do not pay trailer fees. Consequently, Sterling limits clients' portfolio balance to only 50 per cent of such funds.

When providing advice to self-service clients, the firm stops short of telling them which selection to make. "That's about the only part we leave out of the equation," Mr. Ieraci notes. "Clients can call in and talk to our service people if they want general information about how the fund is performing but the advice is going to stop at 'what do I buy?'"

The firm offers a free self-directed plan for individuals with mutual funds invested in a registered account that has at least \$50,000. Otherwise, clients with an account balance under \$50,000 who want an in-house self-directed RRSP must pay an annual fee of \$75.

Sterling offers a web-based asset allocation monitor which notifies customers if their portfolio balance slips outside of pre-established parameters. Customers also have online access to their statements, including a transaction history, on a 24/7 basis. There is no extra charge for that automatic monitoring service.

Contacts: 800-354-4956, [www.sterlingmutuals.com](http://www.sterlingmutuals.com)

### **ING Direct Funds Limited**

ING Direct Funds Limited, a wholly owned subsidiary of ING Bank of Canada, part of the Netherlands-based ING Group financial services giant, began selling mutual funds in Canada in 1999, two years after the online bank was launched in this country. ING sells mutual funds in all Canadian provinces, except Quebec; it does not operate in the three territories.

"Basically we are a no-load, no-fee dealer," explains Paul McKenna, the Toronto-based senior manager for mutual fund marketing at ING Direct. "We have a select product shelf, where we've gone out and partnered with eight leading third party Canadian mutual fund companies," he says, citing the firm's relationship with giants such as AGF Funds Franklin Templeton, Mackenzie and Aim Trimark, among others.

"We also have a model portfolio service in which we've created three portfolios—an aggressive, moderate and a conservative model for our clients. They can either buy portfolios, or a selection of individual funds—and add to those portfolios as they see fit from any of the other funds that are on the product shelves," Mr. McKenna adds. "We have about 50 individual funds that they can choose from. We've selected good quality fund companies to partner (with)."

ING Direct used to offer its own proprietary funds, but discontinued that practice in 2005, two years after it began offering third party funds. The funds purchased are no load;

there are no upfront commissions, deferred sales charges, or administrative-related account fees.

Clients are subject to the MER of the fund they are holding. "Because the ING Direct model is simple and low cost, we have looked to the managers and funds that have average or below average MERs" as one factor in the overall selection process, in addition to, for instance, the short and long-term performance level of the fund and risk levels, explains Mr. McKenna.

"But because MERs fluctuate, in any given year there may be some that fall into the above average category. Our target or objective, though, is to try to keep them at average or below average, relative to the industry."

ING Direct makes its living through trailer fees with mutual fund companies.

ING's mutual fund service is primarily provided on the phone; clients can "call in and speak to our mutual fund associates who will go through their portfolio with them," to examine factors such as risk tolerance, investment objectives, and time horizon, at no extra fee, says Mr. McKenna.

Contacts: 877-700-1737, [www.ingdirect.ca](http://www.ingdirect.ca)

## E-Trade Canada

E-Trade Canada, which began operations in Canada in 1996, currently services all ten provinces, but not the territories.

Although the company also offers telephone and in-person support to customers at its Toronto office, the vast majority of transactions are conducted online, as the corporate name implies. "Our primary strength is the inherent value in our technology," explains Duncan Hannay, the president of E-Trade Canada.

A broad range of services are offered to Canadian consumers—most of whom are self-directed investors. "The one thing that has really evolved over the last several years in our business is that we have broadened our reach out to the everyday investor, in addition to our more traditional active trader customer," and that expanded reach includes "our full suite of mutual fund products and solutions," Mr. Hannay says.

Investors can select from a full slate of several thousand third party mutual funds; although E-Trade Canada itself does not offer proprietary mutual funds, "we really have a mutual fund supermarket available from a number of fund companies, including all the big names," Mr. Hannay says.

There are no front or back-end commissions associated with the purchase of E-Trade Canada mutual funds, provided the customer holds that fund for at least 90 days; otherwise there would normally be a charge of one per cent of the value of the fund, subject to a minimum payment of \$38.88. Plus there are, of course, the usual MER fees embedded in each mutual fund selected.

A minimum balance of \$1,000 is generally required in order to invest in mutual funds with E-Trade Canada, un-

less customers opt for a pre-authorized purchase plan for a minimum of \$25 per month.

E-Trade assists customers with an online asset allocation tool called the *Asset Allocation Optimizer*. "This allows investors to input their investing horizon and risk tolerance, objectives and so forth. It analyzes what their asset allocation should be, then compares that with their portfolio so they know whether their portfolio is weighted properly or if they need to make adjustments," explains Mr. Hannay.

E-Trade, which makes its mutual fund revenue off trailer fees, also offers customers availability by phone through its call centre from 8 a.m. till midnight seven days a week.

Contacts: 416-214-6457, 888-872-3388, [www.etrade.com](http://www.etrade.com)

## ScotiMcLeod Direct Investing

This division of Scotiabank was established early in the 1990s, but did a "re-launch" about 2000 "to focus on this line of business more," explains director and national sales manager John Ballard from his Montreal office.

ScotiMcLeod Direct Investing services all 13 Canadian provinces and territories and while the vast majority of clients visit online, they can also transact by phone (toll-free at 800-263-3430) or by walking into a branch.

"We differentiate ourselves from, say, a bank-based financial advisor or full-service broker in that we don't sit down and do personalized advice for an individual customer. In return, the customer does not pay us for those advice-type services," says Mr. Ballard.

In addition to some 6,000 third party mutual funds, ScotiMcLeod Direct Investing also offers about 50 of its own proprietary funds; all funds are no load. Generally there are no commissions associated with purchasing, selling or switching funds, with a couple of provisos, Mr. Ballard explains.

In rare instances, there are charges attached to more obscure funds like hedge funds; secondly, investors who sell within about 90 days of purchasing may have to pay an extra commission on top of the usual MER, he says.

Like many of its competitors, ScotiMcLeod Direct Investing earns its living from selling mutual funds off trailer fees.

The firm's online website provides investors with extensive research facilities. "We have a very expansive site that lists all of the mutual funds that are available. We also disclose a lot of information about the MER, so customers can compare one fund with another," Mr. Ballard says.

ScotiMcLeod Direct Investing also offers an online service called *Sounding Board*. This "enables a customer to basically ask us a question of what would be an appropriate asset allocation for someone who has a certain risk tolerance." The software then provides answers to assist in the appropriate asset allocation for that customer," he adds.

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