

ARTICLES OF INTEREST

IS IT MORE FUN TO BE DEAD OR INVESTED IN CANADA'S MUTUAL FUNDS?

People don't want to hear negative stuff.

Witness the brief campaign during the 2007 RSP season featuring senior citizens wearing fast food uniforms. "You shouldn't work your whole life to end up back in your first job" read the caption. The sponsoring mutual fund company sustained enough media and corporate grief (from fast food and big box retailers) that the advertisement disappeared quickly. But why? Wasn't the message earnest? Wasn't the statement true?

It is possible that, had one invested in mutual funds for 25 years one might think they were better off to be dead let alone flipping burgers. Here's why.

CANADIANS PAY THE HIGHEST MUTUAL FUND FEES IN THE WORLD

In their paper, Mutual Fund Fees Around the World, released July 18, 2007, Ajay Khorana (Citigroup and Georgia Institute of Technology), Henri Servaes (London Business School), Peter Tufano (Harvard Business School) looked at fees charged by 46,580 mutual fund classes offered for sale in 18 countries representing about 86% of the world fund industry in 2002. They examined management fees (MGT), total expense ratios (TER), and total shareholder charges that incorporate loads (TSC) and in all three categories for bond and equity funds, Canada was the highest...and by a lot! (see table below). While U.S. fund fees were among the lowest in the study, the mean fee of the 18 countries studied were meaningfully lower than Canada's.

Canadian mutual fund firms protested the study's methodology for two years because the paper has been available in draft form for comments for at least that long. After all comments, the results are the same! Canadian mutual fund unit holders pay the most.

The authors have suggested that countries with "stronger investor protection" offer lower fund fees. (Canada's ridiculous multi-jurisdictional-one-in-each-province securities commission structure can be thanked in part). "Wealthier countries with more educated populations" also were found to have lower fees (it is obvious that higher fees leave Canadians less wealthy and if we continue to pay high fees, we aren't very smart). A key observation is that fees are lower in countries with "little concentration in the banking industry" or "where banks are prohibited from entering the securities business". Oh Canada, our home of just five banks. Where the securities industry is dominated by bank-owned firms and 60% of mutual fund distribution is controlled by banks or firms owned by them! But Canadians love their banks, right? But I digress.

Assume a forty year old Canadian investor (25 years from retirement) paid about the mean global fee, saving approximately 1% from what they paid in Canadian mutual fund fees, made an initial \$100,000 contribution with another \$10,000 annually growing with inflation and earned 8% per year linearly declining to 6% at retirement (to reflect a lower risk portfolio) and remaining at this level during retirement and further assuming retirement income of \$40,000 in today's

dollars with inflation at 2.5% (you may disagree with some of these assumptions but

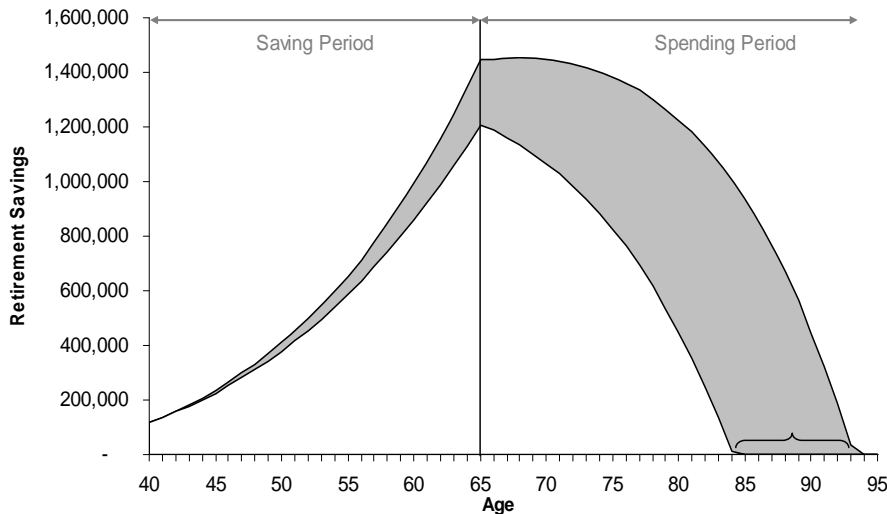
	BONDS			EQUITY		
	MGT	TER	TSC	MGT	TER	TSC
Canada	1.44	1.79	1.84	1.96	2.56	3.00
U.S.	0.42	0.78	1.05	0.62	1.11	1.53
Mean	0.68	0.95	1.39	1.06	1.43	2.09

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the point is that they are not unreasonable). The impact of saving 1% means 9 more years of retirement income!

Impact of 1% Extra Return on the Number of Spending Years In Retirement 40 Year Old Investor



While it seems far into the future for most of us, facing your friends at age 84 with 9 more years of potential retirement income in your account seems much more fun than being invested in mutual funds. The benefit of 1% more also means having more financial flexibility many years earlier! If you are 85 and had invested in

mutual funds, and have no money, having a job is likely more fun than being dead but you would have the mutual fund industry to thank.

You can save 1% (or more) starting today. Sell all your mutual funds and buy ETF equivalents and/or low cost funds. Don't worry about deferred sales charges. The additional return from saving fees will close the gap quickly. If your broker refuses to help you, fire them. Be smart, do it today!

CONCLUSION

Saving 1% in fees has a huge impact on returns over time. Canadian mutual fund companies have been harvesting supernormal fees because regulatory officials are lax, banks control fund distribution and too much of the securities industry and Canadians are not educated enough.

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If you are a bank or mutual fund company wishing to complain or press charges, please send a personal e-mail identifying yourself to myamada@purinvesting.com and I will be pleased make your comments as public as possible. BRING IT ON!

February 2008

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IS IT MORE FUN TO BE DEAD OR INVESTED IN CANADA'S MUTUAL FUNDS? ONE CLEAR SOLUTION

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