BMO Nesbitt Burns

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Financial Insights

from Quinn+Cardy Wealth Management
of BMO Nesbitt Burns

The Potential to Retire Wealthier

No doubt you have heard the claims: by saving in investment management fees, you can end up with significantly more in retirement.[1] It may be worthwhile to take a deeper look into these claims.

It is true that management fees vary for different products. This makes sense given that an actively managed fund would need to compensate experienced managers for their day-to-day decisions. However, choosing an investment based on the lowest possible cost doesn't necessarily mean the greatest returns. In fact, when comparing the balanced fund portfolio of a self-directed company that promotes these lower fees with a similar balanced mutual fund, over three years the managed fund performed better, providing an overall greater return even when including the cost of higher fees (chart).[2]

Of course, this wouldn't hold true for every balanced fund investment option available in the market — and, we don't know what future returns will look like or how individual investments will perform. However, as this investment performance comparison shows, eliminating fees does not necessarily generate better overall returns.

Looking Beyond Investment Fees: The Bigger Picture

Advice also goes beyond just the investments within a portfolio, and this advice can support future wealth accumulation. Investors who work with advisors have a significant increase in savings rates. A 2020 study by the Conference Board of Canada showed that having a relationship with an advisor led to a greater accumulation of retirement savings. It suggested that the support of financial advice could increase an individual's retirement savings by 55 to 60 percent.[3] A U.S. study suggests a similar impact — those with financial coaching increased their annual retirement plan contributions from 6.0 to 9.4 percent of their income.[4] Assuming a 30-year time frame, a 3.5 percentage point increase per year would yield 60 percent greater savings, and this doesn't include the effect of any investment returns!

Over the longer term, the wealth accumulation opportunity can be significant. The average Canadian who works with an advisor has almost 3.9 times the assets than a non-advised investor after just 15 years.[5] Advice may also be valuable when navigating difficult times. Consider the impact of last year's market drops. If you left the stock market for cash in March 2020 and missed out on the five best days of the S&P 500 Index in 2020, this would have resulted in a loss of around 30 percent.[6] There may be additional benefits derived from wealth management support. Beyond conventional portfolio management activities like portfolio diversification and rebalancing, broader wealth management strategies and tactics including tax and estate planning provide opportunities to further enhance an investor's wealth position.

The point, of course, is to suggest that while costs should be an important part of any decision, including within investing, they shouldn't be the sole driving factor. As we invest for the future, we should keep in mind the bigger picture, remembering that the advice which supports wealth planning today has the potential to yield significant benefits down the road.

Sample Comparison of Managed Fund vs. Non-Managed Fund Returns[2]

	2020	2019	2018	3 Year Cumulative	MER
Managed Fund Balanced	8.1%	14.2%	-2.0%	20.3%	1.08
Non-Managed Fund Balanced	6.5%	13.4%	-4.5%	15.4%	0.13
Difference	1.6%	0.8%	2.5%	4.9%	0.95

1. Based on a balanced fund 0.38% annual fee vs average fee of 2.17% on initial investment of $30k; $3k annual contribution over 30 years; 2. questrade.com/questwealth-portfolios/etf-portfolios#balanced; sunlifeglobalinvestments.com/en/slgi-funds/sun-life-granite-managed-solutions/sun-life-granite-balanced-portfolio/?mp=SLMBF&lang=en&fundCurrencyCd=CAD; 3.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=24991&lang=en_CA; 4. cnbc.com/2019/05/31/retirement-saving-improves-when-workers-get-help-with-financial-life.html; 5. cirano.qc.ca/files/publications/2016s-35.pdf; 6. bloomberg.com/news/articles/2020-07-03/the-cost-of-bad-market-timing-decisions-in-2020-was-annihilation

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