RBC Dominion Securities Inc.

Lara Austin MindingMoney

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For the Friends and Clients of Lara Austin of RBC Dominion Securities

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In This Issue

What is IT?

The proverbial elephant in the room is about to unveil itself… And I couldn't be more excited about it. I have worked in this industry for 19 years now, and rarely have I come across a client who knows their number and how IT was calculated. In fact, every "Discovery Meeting" I have with a new client, I dedicate time to have a discussion with them about IT. And I am always, always transparent about IT myself including adding IT to my written proposal. What is IT?

Costs and Fees.

Sometimes a potential client asks that question right away. "How much do you charge?" And sadly I stumble a little bit…every time. It is because, until I know what products and account types we are using, and what is most suitable to YOUR situation – I cannot give a clear answer. Isn't it a little reassuring that a number doesn't just roll off my tongue? That a consideration of circumstances with a little bit of education thrown in makes for a longer but more precise answer?

"The Industry" has been working toward regulating that discussion for a very long time. And the outcome is called CRM II. By July 1, 2014 a two-year phased-in requirement will come into place. It will be broad reaching and involve every Mutual Fund Dealer, Brokerage, and Banks. It does NOT impact those selling insurance products at this time.

I've literally been in meetings where a potential client tells me they aren't paying anything (because you don't see mutual fund MER's on a statement) and I've shown them they were paying $32,000/year on a Million Dollar portfolio! There is a huge disconnect between what investors think they are paying and what they may be. I, for one, fully welcome the elephant. The next few years will be telling.

For readers who are not my clients please know that a complimentary "Discovery Meeting" may reveal things about your current arrangement that you are not aware. For clients, please know that we will be reviewing your fee/commission arrangements in our upcoming review meetings so you are confident that you are getting value for your service!

Cheers,

Lara D. Austin

RBC Wealth Management
Dominion Securities

What You Should Expect from Your Full Service Advisor

There was a saying in our industry, "a Transactional advisor is only as good as their last trade." Gone are the days where one stock transaction represents the value of your entire relationship. It is time for Full Service Advisors to be clear that they are no longer an order taker – but provide a valuable and comprehensive service.

With the advent of more fee disclosure coming by 2016, there will be a number of investors who will be asking what they get for their fees. Most at risk will be clients who haven't had regular meetings with their advisor; haven't had a Financial Plan; haven't been provided any resources in Will and Estate Planning; haven't had their queries answered in a timely manner - AND who are paying the same fees as the investors who ARE getting those services.

What is included in your relationship with us?

- **Engaged discussion:** From the very beginning, we get to know you like nobody's business. The more forthright you are with me, the more helpful I can be to you.
- **Financial Planning Process:** A written financial plan incorporating your goals and objectives. Updated every three to five years. Open to your other professionals (accountant/lawyer) to participate at your discretion.
- **Investment Management Process:** a clear investment discipline creating a consistent, measurable result. A Customized Investment solution.
- **Reporting Process:** Connecting your real life returns back to your plan projections. Customized reporting for Corporate accounts.
- **Performance Assessment:** Reviews are quarterly or semi-annually, either in person or by phone. Reviewing against benchmarks and personal targets.
- **Access to resources:** including accredited research, third party manager due diligence, Wills and Estate Specialists, insurance specialists, Private banking, access to the largest inventory of Bonds/GIC's and access to the full universe of stocks and products.
- **Ongoing Financial Literacy:** Educational newsletters, workshops and guest speaker event, complimentary advise meetings for children and grandchildren (at age appropriate level).

Does Full Service investing make a difference?
Many studies and surveys have shown that investors who work with advisors are more successful than those who don't. A recent survey (1) from the Cirano Institute (Montreal) found that investors with advisors are more likely to:

- Invest early
- Invest regularly
- Save enough
- Successfully manage cash flow in retirement
- Properly diversify
- Have a financial plan

These behavioural activities are the core attributes to investing successfully by helping investors establish a roadmap and stay on track to meeting their financial goals.

(1) Econometric Models on the Value of Advice of a financial advisor, CIRANO Institute, July 2012.

How Fees and Commissions work in a Full Service firm

By Product Type:
*Please note that this list covers the most common product types, you may encounter products not included in the list, for which you should ask specifically how they charge.

GICs and Bonds
GICs: Generally the yield (or RATE) you are quoted includes the fee paid to the advisor by the GIC issuer. The commissions on GICs are scaled based on maturity of purchase and size of purchase. They typically start at 0.20% to 1.0% and are paid only at time of purchase. No other fees or costs are associated with a GIC while it is held. You would not want to hold GIC's in a "Fee based" account or it will attract additional fees.

Bonds: Usually the price quoted includes a spread for commission. It is based on maturity and size of the purchase. Until now, this spread has been "invisible," under the new regulations will be disclosed to the client.

Mutual Funds: Four "Load Options" for each mutual fund available. Mutual funds include all regular mutual fund products that trade on the "fundserve" system.

1. **Front End Load:** At time of purchase a client and an advisor agree on a fee (usually ranging from 1 to 5%). The fee reduces the amount being deposited. (e.g. 3% on $100,000 means only $97,000 is being used to purchase the investment). The client can cash out the fund at

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any time without penalty. There is often a Trailer paid by the Fund company direct to the advisor for 0.50% to 1.25%.

2. **Back End Load or DSC (Deferred Service Charge):** At time of purchase the full amount of deposit is invested. However the Fund company pays the advisor 5 to 8% of the value of the deposit at time of sale. Should the client wish to withdraw the funds, there is a declining penalty schedule. In first year is fairly high 5-8% and slowly goes to zero by year 5-8. Each fund company customizes its own DSC Schedule. There is often a reduced trailer of 0.25% to 0.50% that is paid to the advisor while the client owns the fund.
3. **No Load:** At time of purchase there is No fee to BUY the fund, there is also No fee to Sell the fund at any time. The Trailer is 0.50 to 1.25%. ***I believe this is the most flexible option available to the investor, and is the option I provide my clients in all non-fee based accounts.***
4. **Fee Class (F Class) funds:** Designed specifically for Fee Based accounts, this fund option has no front end or back end fee. There is also no trailer.

All funds also carry 'operational fees'. The internal costs related to paying the managers, trading costs, filing fees, compliance and operations etc. The Operational Fee, plus the Trailer fee is often referred to as the MER. (Management Expense Ratio). ***When I research and recommend funds, I am very cognizant of the MER and looking for MER's that are lower than average.***

PLEASE NOTE: Insurance fund investment products (known as SEG Funds) are exempt from CRM II as the insurance industry is not included in the new regulations. HOWEVER, it is important to ask about those fees and how the insurance advisor is compensated.

Stocks: Include all products that are listed on ANY stock exchange. This includes ETFs (exchange traded funds), Closed End Funds, and Canadian, US and Foreign Common Shares.

Stocks at a full service brokerage are going to be more expensive than the "online discount"model. However, there are lots of differences to be aware of.

Canadian and US Stocks: There is a commission to BUY and a commission to SELL. However there are no costs for holding a position in a non-fee based account. The commission is based on the size of the trade. For example, single transactions less than $10,000 may cost up to 2.70% with a minimum trade size of $125. Those north of $25,000 are reduced to 1.98% and those north of $50,000 further to 1.65%. Further, the advisor MAY provide some discount. I provide a discount for larger clients and regular traders.

There may be additional fees if trading on a foreign stock exchange.

Unlike a discount brokerage, when working with an advisor, it is the fiduciary duty of that advisor to follow the stocks, and investigate that the purchase and subsequent holding of that position is suitable for EACH client. IIROC Client relationship Model (**www.iiroc.ca**) and FAIR (Canadian Foundation for Advancement of Investor Rights) for further information:

http://faircanada.ca/dialogue/fiduciary-duties-the-difference-between-canada-and-the-us/

Foreign Currency Exchanges: A commission can be charged at the discretion of the advisor. ***Typically, I do foreign exchanges for my clients that travel south, and as the amounts are modest I waive the commission.***

By Account Type: Personal/Joint Canadian and US$ accounts, Corporate Accounts and Holdco Accounts:

Three options:

1. **Transactional:** client pays by the transaction depending on what type of product they are using.
2. **Fee based non-discretionary:** client pays a fee negotiated in advance. This fee covers transactions up to a prescribed limit. Each purchase and sale are discussed by the advisor and the client. The fee is calculated and charged quarterly.
3. **Fee based discretionary:** client pays a fee negotiated in advance. This fee covers all transactions. A third party manager or discretionary licensed advisor does the trading – no discussing required. The fee is calculated and charged quarterly.

RRSP/RRIF accounts: Same three options as above except the #1 (Transactional) has an annual $135/year fixed fee charged.

TFSA accounts: Option #2 or #3 (fee based) options only. The fee is 1% and includes 8 'commission free' transactions a year, or suitable for F Class funds. One benefit of a fee system for TFSA's accounts is that the fee can be paid from OUTSIDE the TFSA, so the precious contribution room isn't reduced by internal costs. (ie a $30,000 TFSA might incur a $300 fee. The next year $5500 contribution PLUS $300 Fee Payment can be made to the account).

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How Fees and Commissions work in a Full Service firm... *continued from page 3*

Common Questions:

1. **Can my fees be tax deducted?** CRA (Canada Revenue Agency) does not allow you to deduct fees associated with a tax shelter (ie RRSP/RRIF's and TFSA's are tax shelters). If the fee is outside a tax shelter, you should talk with your tax professional about tax deductions.
2. **What happens if I terminate my Fee based account?** At RBC DS, the holdings are all sold and the pro-rated fee for the quarter remaining is applied. As some other institutions, additional commissions are charged to liquidate a fee based account.
3. **What happens if the account value decreases through the year?** A snapshot of the account value is taken at the end of every March, June, Sept and Dec. and ¼ of the fee rate is applied.
4. **Can my fees be reduced?** There is a scale (generally based on account values) whereby larger accounts or grouped accounts can be assessed for a reduced fee. The scale breaks are usually at $100K, $500K and $1M and $2M.
5. **Do I have to choose between Fee based and non-fee based?** Absolutely not. In fact I often employ a combination of the two approaches depending on the needs and goals of the client and how each of their various accounts are being used over time. ***The aim is to keep costs as low as possible for a client, while providing the best combination of solutions to meet their needs.***

What's Happening?

Estate Planning - Important info for Executors and those updating their Wills

WESA - a whole new Will, Estate Succession Act came into place this year. Some of the changes were significant, particularly for those without a Will or with an outdated or invalid Will. Come hear local legal specialists Catherine Miller (Charles Allen and Co.) and Sasha Nowicki (Swift Datoo) along with Royal Trust Executor Services Specialist Susan Benesch.

September 18th – 2:00 to 3:30pm Crown Isle

RSVP to Jessica is required. Call 250-334-5604 or email jessica.casey@rbc.com

CRM II - Implementation over 2 year PHASE

July 2014

Advisors must provide PRE-TRADE verbal disclosure of charges on every transaction - including an estimate of any deferred sales charges and whether the firm will receive any ongoing fees. There must be a general accounting for Performance as it relates to appropriate benchmarks.

July 2015

There will be more clarity with statements (including noting which securities might be subject to a DSC upon sale) and statements must show either original cost or book cost).

July 2016

Brings Annual reporting showing fees and charges, trailing commissions and any other type of payment paid to the dealer. It also brings specific and unified performance reporting and trade confirmations will disclose all fees.