



Wealth
Management



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Understanding fees

Why do investment fees matter?

When it comes to investing, there are different ways you can be charged for the products and services you use. The costs will vary among banks, brokerage firms and other financial institutions.

Different types of fees

Wherever you choose to open your investment accounts, there may be an account administration fee. This is a fee that's charged annually, per account, and it may be billed monthly, quarterly or annually. In addition to an account fee, there can be certain costs to buy or hold specific investments.

A **commission** is a charge for each transaction, for example, when a security is bought or sold.

An investment **management fee** may be charged as a percentage of the value of the account. As an example,

for an account with a \$100,000 market value and a 1.5% annual management fee, the cost would be \$1,500 that year.

Investment funds have embedded fees for the cost of managing the assets within the fund. This is called a **Management Expense Ratio (MER)**. The MER is charged as a percentage of the value of the fund — it's in addition to the commission, or sales charge, when the investor buys into the fund. Sometimes, the advisor, bank or investment firm receives part of this fee for their ongoing services. This is called a trailing commission (or trailer fee).

Additionally, a **short-term trading fee** might get charged when units of a fund are bought and then sold within a short period of time, for example within 30 days.



Why is it important to understand fees?

The costs associated with investing affect your return on investment. By understanding how fees are charged, you can evaluate the total cost of an investment and the value

of the service you receive from your advisor. Being aware of the cost allows you to make informed decisions about your investments.

Questions to ask at your bank, brokerage firm or financial institution

It's always a good idea to know what fees are associated with a product or service.

- Before agreeing to open an account or purchase an investment, inquire about both immediate and ongoing fees.
- Ask whether you as the investor pay the fees “out of pocket” or if they're withdrawn from your investment.
- You may also want to look into whether the fees are negotiable and whether there are other options.

Note: Some information sourced from Canadian Securities Administrators, *Understanding Your Investments – Types of Fees*. Accessed February 2023. For more details, visit www.securities-administrators.ca/investor-tools/understanding-your-investments/types-of-fees/



To find out more about investing or the RBC Wealth Management Financial Literacy program, please contact us today.