



THE JOHNSON LEGACY REPORT

Building Trust for Generations



Lori Samuels
Wealth Manager
250-979-2712

lori.samuels@raymondjames.ca



Jay Dowhaniuk
Wealth Manager
250-979-2720

jay.dowhaniuk@raymondjames.ca

Raymond James Ltd.
500 – 1726 Dolphin Avenue
Kelowna, BC V1Y 9R9
www.johnsonlegacy.ca

PROBLEM: UNDERSTANDING INVESTMENT FEES

Investment management fees have become a topic of interest in recent years. We have met people out there in the world, and you may have too, that say things like: “Well I’m only paying 1% to my advisor”. Let’s take a look at this statement in more detail because there is still a lot of misconception around what people are actually paying. Below is one example we have seen play out many times:

SIMPLE CASE STUDY

Name: Barb Jones

Occupation: Small Business Owner

Age: 60 years

Tax Rate: 35%

Investment Portfolio: \$1.5million (*held corporately*)

Asset Allocation: 30% Fixed Income 70% Equities

Financial Advisor Fee: 1.00%

Barb is currently working with a financial advisor/portfolio manager (PM) at a bank owned firm. Barb’s PM is directly managing a model portfolio made up of various fee based (f-class) Canadian, US, global equity and bond mutual funds. The advisor is charging Barb 1.00% per year.

Barb is referred to Johnson Legacy Wealth Management for a second opinion on her portfolio. Keeping Barb’s asset allocation exactly the same; we re-structure her accounts using a multi-manager approach through our Partners Program as shown below:

Bank Investment Firm			Johnson Legacy		
Investment Type	Dollar value	Fee	Investment Type	Dollar value	Fee
F Class Mutual Fund Portfolio # 1	\$500,000	1.00%	Partners Account # 1	\$500,000	2.00%
F Class Mutual Fund Portfolio # 2	\$500,000	1.00%	Partners Account # 2	\$500,000	2.00%
F Class Mutual Fund Portfolio # 3	\$500,000	1.00%	Partners Account # 3	\$500,000	2.00%
Total	\$1,500,000		Total	\$1,500,000	
<i>Fees Charged by Current Advisor</i>		1.00%	<i>Fees Charged by JLWM</i>		2.00%

On the surface, it looks like Johnson Legacy’s fee is double that of Barb’s current fee. “Your fee is a lot more expensive than what I’m currently paying, so why would I want to move my business over to you?” This is a great question so let’s look at it in more detail.





Question #1: Currently, what fee is Barb paying?

- A) 1.00%
- B) 2.00%
- C) 1.65%

Answer:

A.) Is Barb paying her advisor 1.0%? Yes.

B.) Is Barb's gross fees 2.0%? Yes.

C.) Is Barb's net after-tax fee 1.65%? Yes.

Confused yet? Don't worry, you are not alone! You see, all three answers are correct in their own right which is why understanding fees can be so confusing and misleading. Let us explain.

Barb's monthly account statement shows the 1.0% fee that she pays her advisor. However, they do not show the additional 1.0% average management expense ratio (MER) fee that her various mutual funds charge which are not tax-deductible. Barb needs to combine these two fees together which increases her cost to 2.0% (gross). Since only her advisor's fee of 1% is tax-deductible (assume 35% marginal tax rate) it brings Barb's after-tax cost down to 1.65% net. However, this is 65% MORE than what Barb believes she's paying.

Question #2: What is Barb's net after-tax fee with Johnson Legacy?

- A) 1.30%
- B) 2.00%
- C) 1.65%

If you picked A, congratulations, you are correct!

Barb would see on her monthly statements the gross fee of 2.00% and since there would be no hidden fees the whole 2.00% is tax-deductible. Therefore, applying the same 35% marginal tax rate, it brings her net after-tax costs down to 1.30%.

When purely looking on the surface, Barb believes she's only paying a 1.00% fee to her advisor at the bank owned firm. When in actual fact, Barb has hidden fees built into her portfolio that are not tax-deductible. It's interesting to note that Barb's net fee with Johnson Legacy would be over 21% lower than what she is currently paying. On her \$1.5 million dollar portfolio it amounts to saving approximately \$5,250 per year which is significant.

The above example shows just how easy it can be to mislead investors into thinking they are getting a deal on fees when in reality they may not be. So the next time you hear someone say "I'm only paying X % to my advisor" ask them: "Are there any hidden fees?" "Is your total fee tax-deductible?" "Is that gross or net?". You'll probably have to explain the differences because they won't have a clue.

Note that in the above example we are only focusing on fees charged in non-registered accounts such as a cash account. Unfortunately, due to CRA rules any fees on registered accounts such as RRSPs, TFSAs and RRIFFs are not tax-deductible. In this case, both Johnson Legacy and the bank firm fees are identical at 2.00%.





Market Pulse:

Major Stock Indexes	Level/Price	YTD Return Ending Jan 31st/19
S&P/TSX Comp	15,541	8.50%
S&P 500 Comp	2,704	7.87%
Dow Jones Industrial Avg	25,000	7.17%
Major Bond Index		
Dex Universe	1,066	1.34%
Commodities		
Crude Oil - WTI (US\$/bbl)	\$54.03	18.98%
Gold (US\$/oz.)	\$1,320	3.04%
N. Gas (US\$/MMBtu)	\$2.79	-5.07%
Currency		
Canadian Dollar (CAD/USD)	\$0.76	3.97%

Source: Bloomberg.

Personal Updates:

As many of you may recall, Lori had a ski accident a couple of years ago and injured the ligaments in her left knee. She took last season off from skiing and focused on strengthening with the goal of skiing this winter. In January she set out in search of a knee brace, settled on one and finally got out on the ski hill again. She is happy to report that it went well! She was nervous so she started on the bunny hill and eventually worked up to green and blue runs. She is thrilled to know that skiing is still doable, but she plans to take it easy out there going forward.

Jay and the family have been enjoying most weekends up at Big White so far this winter. The snow definitely isn't as good as it's been the last couple of years. February will be a busy month as Tucker has two hockey tournaments and Charley has a cheerleading competition in Vancouver. Jay's been making an effort to ride his bike trainer as much as possible over the past few weeks. After taking a couple of months off, it became apparent that Jay needed to get back on the saddle or be forced to buy a whole new wardrobe!

Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

This newsletter has been prepared by the Johnson Legacy group of Raymond James Ltd., and expresses the opinions of the authors and not necessarily those of Raymond James Ltd. (RJL). Statistics, factual data and other information are from sources RJL believes to be reliable but their accuracy cannot be guaranteed, nor should this be considered personal tax advice. We are not tax advisors and we recommend that clients seek independent advice from a professional advisor on tax-related matters. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. Privacy legislation requires that anyone you are referring consents to having his/her information provided to us. This newsletter is intended for distribution only in those jurisdictions where RJL and the author are registered. Raymond James Ltd., Member-Canadian Investor Protection Fund.

