



## Will These 3 Trends Crush Canada's Mutual Fund Companies?

### Description

In 2015, why would anyone buy a mutual fund?

In theory, mutual funds are pretty good products. Back when they first came out, trading costs were high, meaning it was expensive and difficult for retail investors to build a diversified portfolio. Mutual funds also benefitted from professional management, liquidity for regular investors, and the ability to “set and forget” them.

But there's one major downfall, and that's the fees. Assume that a mutual fund is able to consistently achieve a 9% return, but with a 2% management fee. The difference between a 7% and a 9% return doesn't seem like much on the surface, but over time it'll really add up. Based on a \$10,000 investment and 30 years of compounding, the investor who gets 9% returns will end up with nearly \$60,000 more than the investor who gets 7%.

That's a pretty decent chunk of change, even 30 years from now.

Fortunately for many investors who are stuck inside value-killing mutual funds, the heyday of these types of investment products looks to be largely behind us. Here are three reasons why that's good news for investors, and bad news for shareholders of **IGM Financial Inc.** ([TSX:IGM](#)), **AGF Management Limited** (TSX:AGF), and **CI Financial Corp** ([TSX:CIX](#)).

### Better disclosure

Like many companies before them, mutual fund companies are really just exploiting our inability to do math.

Canada's financial regulators know the destructive power a 2-3% management fee can have on an investor's portfolio much more than the average investor does. So starting in 2016, the mutual fund industry will be forced to disclose to clients the true cost of their funds in dollar terms. Instead of saying a fund has a 2% MER (management expense ratio), the fund company will be forced to express it as \$200 for a \$10,000 investment, or \$2,000 for a \$100,000 investment.

Many people who use mutual fund-based financial advisors are so clueless on fees that they don't even know how their advisor gets paid. This will change that, and will undoubtedly take some money away from these expensive funds into lower priced alternatives.

### **Rise of fee-only financial planning**

Many of Canada's finest financial minds are saying the same thing. If you're looking for financial planning services, it's best to find someone who doesn't sell mutual funds.

Essentially, fee-only financial planners sell unbiased financial advice. In exchange for an hourly fee, a fee-only planner will scour the market for the best deals in investments, insurance, and other financial products. Since they're not compensated by mutual fund fees, a fee-only planner is much more likely to recommend ETFs with management fees just a fraction of what mutual funds charge.

One thing I've always liked about Investors Group is that its agents can cross-sell things like insurance and mortgages along with the mutual funds. But it's hard to see that business model doing well in a world where investors are getting more biased against mutual funds.

### **Continued rise of ETFs and DIY**

Two decades ago, it was virtually impossible for someone who only had \$10,000 in net worth to take control of their own portfolio. These days, with the massive amount of information on the internet and the rise of online brokers charging as little as \$1 per trade, it's easy for folks to invest without the help of an expert.

And let's face it. Many of Canada's largest mutual funds are just closet index funds anyway. Canada is dominated by 50-60 large companies, which form the basis of the index. And since fund managers don't want to massively underperform, they'll tend to stick to the same companies that form the index, with just slightly different weightings. Many investors feel this isn't worth a 2% management fee, and will seek other alternatives.

I was long IGM Financial until approximately six months ago, when I first realized this storm was coming. Shares are now 10% lower, even though the dividend has crept up to 5.4%. I think that's only the beginning of a long, painful downfall for the mutual fund business. Investors are starting to demand better products than expensive mutual funds. Greater disclosure is just going to speed up the process.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:AGF.B (AGF Management Limited)
2. TSX:CIX (CI Financial)
3. TSX:IGM (IGM Financial Inc.)

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**Date**

2025/08/16

**Date Created**

2015/06/12

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