Jockeying for Your Investment Dollars

Description

The last quarter of the year has so far been dismal. Instead of licking wounds, now is the time to identify long-term prospects. This article deals with a market trend in the financial sector: passive investment instruments.

The Globe & Mail reported recently that **Canadian Imperial Bank of Commerce** is "the last of the major banks to launch its own [exchange-traded funds] ETFs." About time! Even Canadian businessman Kevin O'Leary has an ETF, which happens to focus on global tech stocks. Meanwhile, **Sun Life Financial**, with over $23 billion in assets under management from its Global Investments, refuses to read the ETF memo, as it recently launched five new mutual funds, and yet these funds actually hold select ETFs.

There's a dizzying number of ETF products

If passive and liquid investment options in the form of ETFs are to rule the future, then **Bank of Montreal** (TSX:BMO)(NYSE:BMO) may get crowned as the ETF king. BMO is a leader with 105 ETFs to choose from. These products are easily identifiable, because the trading symbols almost always start with the letter "Z." BMO's website lists all these products in a spreadsheet format. Others, like CIBC, looking to get into this financial service will have to match or undercut the management expense ratio (MER).

BMO set the bar with an average MER of 0.42%

Forty-two basis points is what an investing client has to fork over each year on average in owning a BMO ETF. Such a low number is good for clients and a tougher hurdle to clear for the investment shop. For example, investing $10,000 in an average BMO ETF product will cost $42 each year. BMO's highest MER is still under 1% (82 basis points) and the lowest MER is dirt cheap at 0.06% (six basis points to own a TSX Capped Composite Index ETF).

Fool contributor David Jagielski wrote about one of BMO's broad and strategic ETFs, the **NASDAQ 100 Equity Hedged to CAD ETF** with a MER of 0.39%. CIBC's NASDAQ 100 mutual fund is a similar product, but with a higher fee of 1.26% it begs the question, why pay more for essentially the exact same thing?

Royal Bank of Canada (TSX:RY)(NYSE:RY) is also featured prominently in the ETF game. With management fees that are comparable to BMO and a solid range of ETF products, it is fair to say that Royal and BMO are jockeying for top-dog status in this ever-growing investing products game.

Royal had $474 billion in assets under management at the end of 2017. Such largess makes it impossible to ignore. As for BMO, the wealth management division posted $953 million in revenue in 2017. Those small fees that I mentioned can really add up. As a segment of the overall and diversified BMO business, the wealth management segment accounted for 18% of total net income, which is slightly higher than Royal's wealth management segment at 16% of total revenue.

I'm making a big deal out of the passive investment part to the wealth management business, because I am very *bullish* on this ever-expanding segment. Investors can decide whether Royal or BMO is better for them after weighing in on the other four-fifths of these businesses.

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