KLT Group

Financial Strategies

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IN THIS ISSUE:

Are you getting what you're paying for?

Most Canadian investors, especially smaller investors, are paying very high fees for sub-par service.

The reason for this is because there is around a trillion dollars invested in mutual funds, mostly through bank branches.

Unfortunately, most financial advisors selling mutual funds advertise the products they are selling (they sell products—not advice) as "free" which is absolutely wrong.

An example would be the RBC Balanced Fund. The cost of this fund is 2.16%. This is not at the high end of the spectrum and not at the low end of the spectrum. This is not a bad fund, but if you had $100,000 invested in this fund you would be paying $2,160 every year in fees—and many investors aren't aware of this cost. The bank ATM fees and bank account fees pale in comparison to these kinds of fees.

Most major Canadian banks are in the same range, RBC is not an outlier in this regard, I only use this as an example because they are Canada's biggest bank.

There are two questions any investor owning mutual funds through their bank branch should be asking themselves and their advisor: (a) "Am I receiving the service and performance commensurate to what I am paying for", and (b) "Is this the most tax efficient way for me to be investing my money?"

The inherent problems with mutual fund fees is that they are often embedded, and therefore are not tax deductible. Inside a registered account such as an RRIF, RRSP, or TFSA, this is only a problem of cost and not a problem of tax deductibility.

There are more cost effective and tax efficient ways to reduce the overall fees that you are paying, which does include more cost effective mutual funds such as the F class as well as other products that are not mutual funds.

If you are paying top dollar, you should be getting top service.

Are "DSC" funds really that bad?

A lot of ink has been spilled in the financial media about how horrible DSC mutual funds are.

DSC means "Deferred Sales Charge", also referred to as "Back End Load". What this means is that the fund is free to buy and sell, but if you sell it earlier than the term, you will be forced to pay a fee to get your money out if you don't "switch" to another fund within the same fund family.

DSC funds do however have their purpose. For an RESP or early stages of an RRSP, for example, a DSC has the advantages that it will grow, you pay no up front fee, and you likely wont be using the money anytime soon anyway. Key is to select a fund family with many mandates.

Real estate and retirement

Retirees are financing their retirement on credit or real estate—and this is a very hazardous strategy which includes a lot of leverage in a single asset class.

The current group of retirees sitting on million dollar plus real estate gains terrifies me. You have people on fixed incomes holding in many cases well over 80% of their net worth in a single asset class.

Guess when the last time that happened? The dot-com bubble. Everyone owned tech stocks thinking they were going to make millions. Nobody could let go of their greed and sell and take their profits off the table.

Well we all know how that story played out—take DELL for example: in 2000 it was trading at $43.65, today it is not even trading, it is valued at ZERO.

Right now Canada's debt-to income ratio is a staggering 167%, interest rates are climbing, and price to income ratios are so divergent that affordability is a joke.

Lets contrast this scenario to other markets:

Spain blew up at 150%, Britain blew up at 150%, the US blew up at 140%, all precipitating massive drops in real estate values. (Further reading: Case Schiller charts).

Retirees need to consider putting their money into other investment classes—real estate is paper wealth and when the market turns, things can become very hard to sell.

Canadian / US Dollar

Currency hedging in your portfolio is key

While there are a lot of people who spend a lot of their time in the US, there are other reasons to be mindful of the US/CAD conversion rate.

US investments are priced in US dollars. Many pay great dividends, have great performance (Warren Buffet seems to think so, and he's much smarter than I am), and they are tax efficient.

Canada's currency is very tied to oil and commodities. OPEC (the oil cartel) has most of their membership running huge deficits and member states are under huge pressure to restrict supply to raise oil prices.

When the Canadian dollar rises, that's great right? Except your US investments are worth less in the currency you spend every day. Having a proper currency hedging strategy in place is key to ensuring you are not on the wrong side, watching as your investments grow but your portfolio value in Canadian dollars falls and your yield shrinks.

Talk with your us about hedging strategies.

My safe bond fund portfolio

Bond funds are the riskiest part of today's portfolios

Over the past 30 years, interest rates have steadily dropped, leading investors, especially conservative ones— and financial advisors to believe that "bond funds" are the safe bet in their portfolio.

People get these at the bank branch, through a mutual fund advisor, or even in an ETF portfolio with an IIROC dealer.

The problem? When interest rates rise (as they have just started to), the value of bonds falls (and the cost of your personal debt goes up at the same time). Rates can't really go lower, as conservative investors have lament, sending them to take on more risk to enhance yields.

A fund or many ETFs is priced on the *resale value* of those underlying bond holdings. Meaning as rates rise you will *lose money* on your bond funds. The manager can shorten the duration of the underlying holdings to reduce this risk, but it further depresses your return and yield.

What can an income investor do?

Chasing yield can cause conservative investors to take on more risk than they intend to

With record low interest rates, turbulent markets, Trump uncertainty, Brexit, the BRIC bloc, rates rising, those on fixed incomes looking for income from their investments are stuck between a rock and a hard place.

It saddens me when I see people invested in term deposits (or GICs). The reason for this is because the rate or return is so low (paying less than the rate of inflation) and they are fully taxable. The price of that guarantee is downright silly because there are alternate options available:

Preferred Shares: That bank guarantee is insured by the CDIC for $100,000 per account, but the same bank usually issues preferred shares at a higher rate.

Yield to maturity ETFs or funds: “Target” ETFs and funds provide diversification and are not priced like fixed income mutual funds based on the resale value and often have very low fees.

Floating rate options: There are a lot of floating rate options to hedge against interest rate risk, which is the biggest concern for conservative investors today.

There are other options as well—consult us and we can help you explore them.

Third party health insurance?

Drug costs can spiral out of control

This may be one of the best investments an early retiree or someone looking to retire could buy.

It helps you cover prescription drug and dental costs, which can rise as high as 10% per year in retirement. That great pension will do you little good on a fixed income if your health care costs are rising by 10% per year compounded.

They are relatively affordable if you start young before you have health care problems. There is also extended care coverage insurance, which usually caps out and the premiums stop after 20 years.

It is well worth the investment if you consider that you might be paying $150 a month for long term coverage but as much as $4,000 per month for long term care for the remainder of your life, it is important to analyze if this is a solution that is right for you.

We can help you determine if this is a solution that would meet your needs—just give us a call and we can go through the discovery process.

What a private banker does

A private banker can help you in more ways than anyone at the branch—including ensuring your bills are paid while you travel

It sounds expensive and like it is only for rich people—but it often isn't.

While there are minimums, private bankers can be extremely helpful. They can get you better mortgage rates, take care of your bill and credit payments, help you organize all of your banking needs, and help you navigate the financial world much better than you may be able to do as an individual.

They are also helpful for being an intermediary with your fiduciary or executor in the case of mental incapacity or your estate.

Not unlike the services that KLT Group provides on the general financial side, a private banker is a person who you can pick up the phone, call at almost anytime, who knows your personal financial situation, and will put together the solution that best meets your banking needs. Why wait for a teller, they will look after everything in a single call.

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Solving one client problem at a time - every day

KLT Group provides financial advocacy services to investors, retirees, savers, and anyone with a financial need.

We do not ask you for fees nor sell you any products—so you can trust our advice as we are impartial. We will connect you with the best advisor to meet your goals, and they will pay us. We continue to provide our services throughout the process to ensure you are getting the best possible service at the lowest price.

We can probably save you thousands in fees with a simple phone call. We never ask you for a cheque. Just give us a call at the number to your left.

Kris is happy to speak to your group no matter how large or how small about general financial matters

Kris speaks to the VRTA

Kris Taylor, our Principal, spoke to the Vancouver Retired Teachers' Association on May 23rd. The presentation was well received, and the topic was "Investment Fees and You".

Kris is available to speak to groups of any size and can help people with topics of a general financial nature.

One of the key questions raised by an audience member was: "This all seems so complicated—how are we supposed to know all of this?"

This is a common question when it comes to financial services. Without 20+ years experience in the business, it is very difficult for the layperson to understand all of the products, account types, fee loads, and other idiosyncrasies of financial services and to be able to avoid scams and shady operators.

Call us today to book Kris to speak to your group—no matter how large or how small we will try to accommodate you.

We usually provide small prizes for your group.