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Fund Facts — The answer to every advisor's prayer?

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InvestorPOS.com

A survey of financial advisors finds that the 2-page Fund Facts that Canada's fund companies were required to provide as of July 1st are popular — at least with financial advisors.

They're described by one industry player as "The answer to every advisor's prayer ... a compliant one-stop solution for fund info." That's from Susanne McDuff, wealth consultant and branch compliance manager with Credential Asset Management.

The quote comes from a press release issued Thursday by InvestorPOS.com, which conducted the advisor survey and also provide access to some 25,000 mutual fund related documents via its web site, provided by some 150 fund companies.

When responses were tabulated from 50 of the heaviest users of the site, 88% said Fund Facts provide "easy to understand documents for their clients." 74% rated these 2-page plain-language disclosure documents as important or very important, versus only 2% who thought them "not important."

The web site is integrated with SEDAR (System for Electronic Document Analysis and Retrieval) and is free to advisors, who can deliver a Fund Fact electronically to clients or print and mail them. It saves them the time and bother of pulling up the information from the fund company web sites. While there's no charge to advisors, fund companies can pay a subscriber fee.

Try it yourself with this popular dividend fund

Given how much the advisors liked Fund Facts, I wondered how useful it would be for prospective buyers of mutual funds. After reading these glowing descriptions, I decided to test it out by retrieving the Fund Fact for [one of the mutual funds that have been in the news the last week](#).

On the first page, I didn't see a lot of information that wasn't already available from Morningstar Canada or its competitors. You'll see under Quick Facts that the all-important MER (2.69% in this case) is right up there in the top right corner, along with the inception date. There's a listing of the top ten holdings, which is pretty much ubiquitous anyway, although it's only as of May 31, 2011.

There's a semi-useful section on how the fund has performed: in this case, if you invested \$1,000 at inception in 2003, the fund grew to \$1,586 by May 31, 2011. It tells us this is an annual compound return of 6.1%: good to know but hardly information not available elsewhere.

What I didn't get out of the document is any sense of how this fund compared with its peers or against the benchmark (the index). It describes the fund as "low to medium risk" and suggests it would be suitable for those who "seek income from your investment, and you are comfortable with the risks associated with equity investments." Well, that's pretty much the kind of meaningless drivel you'll find in the much-aligned prospectuses.

And certainly, you get no sense of how this MER compares against those of similar funds, or comparable index funds or ETFs. Nor does it convey the critical concept of how much this MER will consume the return as the years and decades pass. Of course, if it did, the document probably would no longer be "the answer to every advisor's prayer," would it?

Page 2 does have useful info on commissions, fees and costs

Page 2 of the Fund Facts looks more promising, at least at first glance. The focus is on cost and sales charges and it forthrightly sets out the DSC (Deferred Sales Charge) schedule and how much it costs if you sell within seven years of buying it.

Under "how it works," it informs the prospective buyer that this particular fund company will be paying the salesperson a commission of up to 4.1% and that the company may also pay them an additional payment of up to 50% of the sales commission if they are in their first three years with the firm. It provides more useful information about how DSCs work.

Under Fund Expenses, we learn that "you don't pay these expenses directly" and that "these expenses reduce the Fund's annual return." It shows the MER is 2.69% plus there is 0.02% for investment trading costs, bringing the total annual Fund Expenses to 2.71%. Then it "translates" this into dollars and cents: it works out to \$27.10 for every \$1,000 invested.

\$27 seems a conveniently tiny number. Of course, it might look more significant if you also explained that the same MER on a \$1 million investment would be \$27,000. Oops: that's more than the maximum you can contribute to an RRSP each year: not really an answer to anyone's prayers.

Then it lays out the annual trailer commission. Nice touch there admitting that what some used to call a trailer fee is actually a commission. It makes it clear this commission is based on the current value of your investment (as opposed to the initial purchase price) and that it won't exceed 0.61% a year, or \$6 per every \$1,000 invested. (Again, a seemingly small number until you realize it also means \$6,000 a year on a \$1 million portfolio).

It then explains there may be an excessive switching fee of up to 5.5% and a short-term trading fee of 2% if you sell or switch within 90 days of investing in the fund.

Finally, it explains the rules of "rescission rights" for those who may change their mind after buying: they can cancel within 48 hours after receiving confirmation of purchase.

So back to the "answer to every advisor's prayer." Presumably, advisors will like this document because it lays out how they are compensated and when clients ask about it, they need simply point to the relevant section of the Fund Facts.

Whether this document is an answer to clients' prayers remains to be seen.