



## **EXCESSIVE FEES CAUSE INVESTORS TO SEE RED**

By Michael Lannon

With the release of the joint “shadow shopper “ survey by the Australian Consumers Association and ASIC into financial planners concluding that “ **Many financial planners give poor advice to clients and are influenced by commissions and not necessarily what is best for the client**” the focus is firmly back on fees and commissions. With only half of the plans evaluated being acceptable the old adage “ **buyer beware**” certainly applies.

Late last year, the executive director of the Australian Prudential Regulation Authority, Charles Littrell, effectively accused financial planners of taking bribes from fund managers to sell their funds to clients. With over half of financial planning firms owned by banks or life insurance companies the independence of advisers is certainly being questioned.

At a time when a lot of investors are seeing their superannuation and investment accounts decline in value, few investors realise or are able to decipher that the fees they pay are a significant contributor to their losses. The message here is simple.

**Entry fees, percentage based adviser service fees; high administration fees plus investment management fees can seriously affect your returns and your long-term wealth. Fees matter. Pay attention to the fees you are paying. Take an active interest in your investments and super.**

There are three major groups in the funds management industry each with different agendas: all concerned about making money. The first are the fund managers, followed by the distributors (salespeople or advisers) and finally the consumer or the investors.

In the old days the fund manager or life insurance company had the power and the salespeople earned up-front commissions. As distribution became more important the advisers set up master trusts and effectively marginalised the fund managers. The fund managers wooed the advisers with additional incentives (trips, trailing commissions, marketing support) and finally purchased many of the largest financial planning groups. Now with the advent of direct on-line access to most investments the consumers’ power is increasing and they now have the ability to dictate the terms to advisers. The advent of on-line access means that many fees are now optional.

Consumers now need to practice a golden rule of investing. **Never pay commissions for advice; Pay only a professional hourly fee. Investors need to focus on the fees they are paying and question the value they are receiving.**

I have long maintained that there are excessive fees in portfolio service platforms favoured by advisers. These days, approximately 80% of all new investment money is directed by advisers into these master trusts, wrap accounts or all in one investment solutions.

Many advisers claim to be “fee for service” but if you look closely at the adviser review fee or service fee it is just another percentage-based commission. In the past many advisers would “churn” accounts making changes to the funds every year to

generate commissions. Now, once you pay the entry fee for the all in one portfolio service you can usually switch between managers without incurring a charge. Hence advisers created the adviser service or review fee.

In the accompanying table I have broken down the fees of some of the most popular platforms that collectively represent many billions of dollars in investment. The sales pitch for most portfolio service products is that investors can access “wholesale funds” with lower annual management fees. However in order to assess the merits of these products the **total fees including adviser service fees have to be evaluated**. Most investors are unable to ascertain the myriad of fees due to their complexity. I have over 15 years experience in this industry and it took me several days to decipher the fee structures. Since many of the fees are variable I thought I would explain my methodology

- Entry fees are straightforward and tend to be at the higher end of the range.
- “Nil entry fee” or “deferred entry fee” products are to be avoided without exception due to higher management fees and associated exit fees.
- With the exception of First Choice and ING One Answer these products are only available through an adviser. A number of these platforms offer access to direct shares but then you get to pay a management/admin fee on your direct share portfolio. Why would you do that?
- These are investment products but generally superannuation versions of these products are available with slightly higher fees.
- The range of underlying managers’ fees is misleading with low fees for cash and high fees for retail share funds so I have used an average manager fee. Similarly I have averaged the lowest and highest on-going fees to present a more representative picture.
- The adviser service fee unless stated as lower is assumed to be 1.1% p.a.
- Admittedly the administration fees for some of these evaluated products decline as the account balances increase, however the with investment minimums as low as \$1000 the products are clearly targeted at small investors and a portfolio size of \$50,000 seems a fair starting point for evaluation.

If you are invested in one of these products or a similar product like an adviser driven master trust maybe it is time you took a closer look at your overall fees. As illustrated in the table the percentage may seem small but the overall dollar value is substantial. As much as an adviser might sell you the benefit of having all of your investments in one place, if it costs you significantly more, then you have a very expensive record keeping system. It has been my experience that it is more convenient for the adviser than investors to use these portfolio services. If you use these products ask yourself: **At what cost?**

If you wish to do something about this serious issue write to your member of parliament with a common sense solution. **All of the fees associated with managed investments, superannuation funds and portfolio services should be required by law to be put on the investor’s statement both as a percentage and as a dollar figure.** This would be truly the disclosure that investors need.

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**Comparison of annual fees for \$50,000 invested in portfolio services, master trusts or wrap accounts (includes GST)**

Product	FIRST CHOICE INVESTMENTS Accessed via discounter*	AMP INVESTMENT SOLUTION	(AXA) SUMMIT MONEY MASTER INVESTOR SELECT	ASGARD MANAGED PROFILES INVESTMENT ACCOUNT	ING ONE ANSWER INVESTMENT PORTFOLIO	NAVIGATOR PERSONAL INVESTMENT PLAN	BT WRAP ACCOUNT SERVICE <sup>^^^</sup>							
Product Type	Multimanager	Multimanager	MultiManager	MultiManager	Multimanager	MultiManager	Multimanager							
Available through adviser and discounter	Yes	adviser only	adviser only	adviser only	Yes	adviser only	adviser only							
Direct share facility**	no	yes	yes	yes	no	yes	yes							
number of investment options	49	54	189	130	26	120	209							
<b>ADVISER FEES &amp; COMMISSIONS</b>														
Entry Fee	up to 4% (nil*)	<b>up to 4.4% (\$2,200)</b>	<b>up to 4.4% (\$2,200)</b>	<b>up to 5.5% (\$2,500)</b>	up to 4.4% (nil*)	<b>up to 4.29% (\$2,145)</b>	<b>up to 5.5% (\$2,750)</b>							
Nil Entry fee option***	not applicable	not applicable	yes	yes	yes	Yes	no							
Exit Fee	nil	nil	up to 4.77%	up to 4.6%	up to 3%	up to 4.29%	no							
Standard Trailing Commission	0.60%	0.44%^	up to 0.55%	up to 0.38%	0.44%	up to 1.1%	nil							
<b>ADVISER SERVICE FEES</b>														
Adviser Service/Review Fees	0.60% - not applicable*	<b>up to 1.1%****</b>	<b>up to 1.65%</b>	<b>up to 1.1%</b>	0.60%-not applicable*	<b>up to 1.1%</b>	<b>up to 2.2%****</b>							
<b>MANAGERS/OPERATORS FEES</b>														
Admin/Mgmt. Fee	<b>1.1%-2.15%</b>	<b>1.24%^</b>	<b>1.48%</b>	<b>2.00%^^</b>	<b>1.20% -1.70%</b>	<b>1.43%- 1.98%%</b>	<b>0.98%</b>							
Fees charged by underlying managers	No-Included in admin fee	0.21%-1.24%	0.19% - 1.60%	0.18% - 2.15%	0.00% - 1.23%	0.20% -1.64%	0.2% - 2.17%							
Average fees for investment managers	not applicable	0.81%	0.88%	0.87%	0.75%	0.98%	0.89%							
Range of Total Management Fees (excludes entry fees and adviser service fees and review fees)	<b>1.10%-2.15%</b>	<b>1.89% - 2.92%</b>	<b>1.68% - 3.06</b>	<b>2.18% -4.15%</b>	<b>1.20% - 2.93%</b>	<b>\$1.63%-3.62%</b>	<b>1.18% - 3.15%</b>							
In \$ terms average investment managers' fees	<b>\$550 - \$1,075</b> No-Included in admin fee	<b>\$945 - \$1,460</b> \$405	<b>\$840 - \$1,530</b> \$440	<b>\$1,090 - \$1,750</b> \$435	<b>\$600 - \$1,465</b> \$375	<b>\$815 - \$1,810</b> \$490	<b>\$590 - \$1,575</b> \$445							
Total on-going fees+ Adviser Service Fee	%	\$	%	\$	%	\$	%	\$						
lowest	1.10%	\$550	1.89%	\$945	1.70%	\$850	2.18%	\$1,090	1.20%	\$600	1.63%	\$815	1.18%	\$590
highest	2.15%	\$1,075	4.02%	\$2,010	4.73%	\$2,365	5.25%	\$2,625	2.93%	\$1,465	4.72%	\$2,360	3.15%	\$1,575
average	<b>1.88%</b>	<b>\$940</b>	<b>3.59%</b>	<b>\$1,795</b>	<b>3.46%^^^^</b>	<b>\$1,730</b>	<b>3.97%</b>	<b>\$1,985</b>	<b>2.07%</b>	<b>\$1,035</b>	<b>3.79%</b>	<b>\$1,895</b>	<b>2.97%^^^^</b>	<b>\$1,485</b>
Source: Product Disclosure Statement	13/05/2002	1/07/2002	6/0103	1/11/2002	12/08/2002	25/03/2002	6/11/2000							

\* assumes access via direct investment provider lik 20/20- 0% entry fee and no adviser service fee  
 \*\* by using direct share facility you pay an admin/management on your direct share portfolio-WHY?  
 \*\* Nil entry fee or deferred fee option to be always avoided due to higher annual management fees  
 \*\*\*\* Source: Fund manager adviser service centre

^ trail not included in admin fee  
 ^^ includes .10% responsible entity fee 0.36% expense recovery  
 ^^^ also available badged by Count, Lonsdale, Associated Planners and other dealer groups with some fee variations  
 ^^^^ Includes adviser service fee of 1.10% rather than the maximum allowable