

INVESTING

Making Sense Of Charges

Life company funds make sense for passive investors but beware the trailing commissions paid to intermediaries, writes **David Quinn**

I've been working in the financial planning and investment sector since 1996, so you would think that by now I would have a very good handle on how the charging systems work when it comes to investing. However, I have found that as each year passes the systems and options available to investors gets more and more complicated.

Some of this complication is deliberate on the part of fund managers and the investment industry, and some is in the best interests of the investor. The challenge for individuals is to try and make sense of the noise and get the best value.

Traditionally, when people invested there were two choices. They could go to a stockbroker and ask them to purchase some shares or bonds. There would be a transaction commission, and the investor would then hold the shares until they were sold. Alternatively, an individual could go to a broker and invest in life company funds. There would be an annual charge for managing the fund, typically 1% or more per annum of the sum invested.

The stockbroker option was very much a DIY choice, and the funds option was for people who didn't want to direct the investment themselves. In today's world, there is a wider variety of options, from online discount stockbrokers, to discretionary fund managers and platforms.

Life Companies

The life assurance companies offer a suite of funds, which are available under regular savings or lump investment bond contracts. They have a bad reputation in many circles for being expensive with lots of hidden fees. However, my experience is that many of them now offer extremely good value for the private investor. Much of the ongoing cost is associated with advisor commissions. The typical life assurance company investment fund is at least 1% per annum. However, if all advisor commissions are waived, the typical fee for a fund is well under 0.5%.



David Quinn, Investwise

The life company investment bond product is very convenient for an investor who is not confident about managing their own portfolio and who wants the convenience of a hands-off approach with no tax returns or ongoing maintenance. The key to a successful investment in this area is to know what you are paying for. Ask the financial advisor to give you the 'nil-commission' quote and then compare that to the proposal they are making. Ideally, investors should agree a fixed fee, not a percentage of the investment, and then secure access to the lowest possible management fee from the fund provider.

Stockbrokers

Along with traditional stockbrokers are newer online low-cost internet brokers such as DeGiro. These online stockbrokers have very low fixed transaction fees (as low as €5 per trade), so they can offer excellent value when there are many transactions on an account. These accounts require some ongoing maintenance, an annual tax return and supervision of the investments themselves, so I generally only recommend them for experienced investors. The costs of getting a tax

return wrong, hidden currency commissions or investing in the wrong instrument can be far more damaging to wealth than recurring annual charges.

Platforms

These are relatively new in Ireland and offer the flexibility of a stockbroker, with the convenience of a life assurance company investment bond. The two most popular platforms in Ireland are Conexim and Davy Select. They charge a fixed annual percentage for access to the platform (0.3% to 0.4% of the sum invested). This can be the only charge if the investor buys stocks or bonds in local markets. There are additional charges for buying funds, which can range from 0.05% per annum for a Vanguard ETF and up to 1.5% or more for an actively managed fund.

The various investing options all have their advantages and disadvantages depending on your needs. Nothing is free in the investment industry, so if you are not paying for the advice up-front, you will almost certainly be paying for it over the long term with much higher annual management fees.

David Quinn is Managing Director of Investwise, a financial advisory firm that operates a fee-only advice service.