

MAKE IT



I can do that

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Trim commissions

The strategy To pay less for managed funds.

How do I do that? Many investors already avoid the hefty up-front fees on managed funds by investing through either a financial planner who rebates the commissions or a discount broking service. Managed funds can charge up-front commissions as high as 5 per cent but a fee-for-service planner or fund discounter will typically rebate this to you. If the fund manager allows it – and most of the major ones do – the rebate can be paid as additional units in the fund or it may take the form of a refund.

Funds researcher InfoChoice lists 24 online brokers that have managed funds at a discount and there are also discounters such as the Fairfax-owned Direct Access and Invest Smart.

Discounters can afford to make a full rebate of entry fees because their business model is based on the ongoing or “trail” commissions generated every year you stay in the fund. Managed funds pay trail commissions of about 0.2 to 1.1 per cent, though the average is more like 0.4 to 0.5 per cent. Because this is not a big fee in percentage terms (and it’s generally paid out of the fund manager’s fees), it’s not something investors pay too much attention to. But

with a long-term investment, trails can mount up and provide a healthy cash flow for the discounter or planner receiving them.

Does anyone rebate trails as well? Some fee-for-service planners now rebate trails but it’s still not the norm. Many claim it’s too hard administratively. There are also few discounters who rebate trails. Two that do are Invest Smart and the more recently launched Your Share. Invest Smart has a TrailCap service, which allows you to reduce your trails to \$396 a year. Any trails received by the company in excess of this will be refunded to you by an annual payment. To use the service, you fill out a form nominating the company as your broker and, if the fund manager is a participant in the program, you should receive an annual payment for any trails received in excess of the cap.

Your Share takes rebates a bit further. It gives a 50 or 70 per cent rebate of all trail commissions it receives on managed funds, wraps accounts and master trusts, insurance policies and margin loans. The 50 per cent rebate applies on the first \$4000 of any trail received and 70 per cent on any amount above this. Your Share’s founder, accountant Paul Brady, says the company will rebate trails from any fund manager and sends out a cheque each year on the anniversary of your

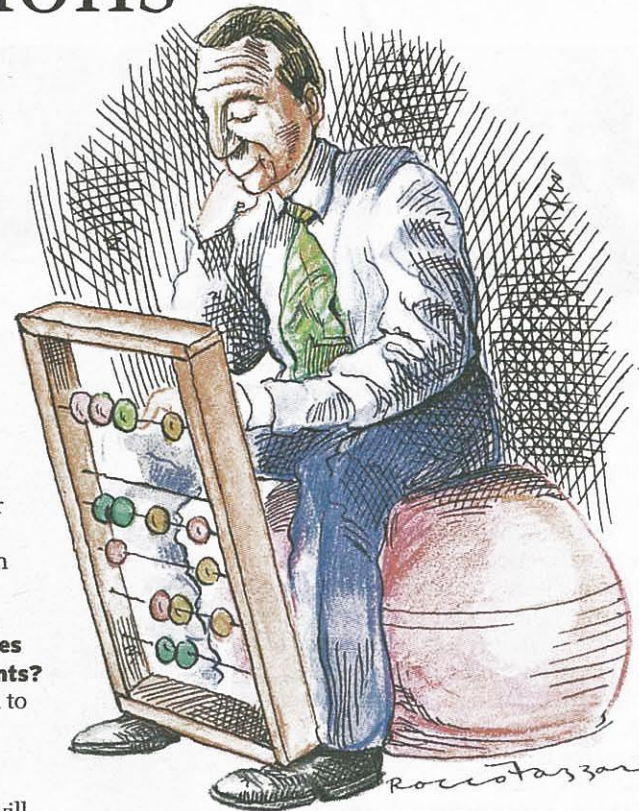
membership. He says he and his wife, Juliet, formed the company after she realised she was paying commissions each year on an old super policy to an adviser that she had never heard of. The service is targeted at investors who make their own decisions or no longer use the adviser who originally placed them into a product.

Can I use these services for existing investments?

Yes. You simply need to fill out a form nominating the discounter as your broker and the fund will redirect trail commissions to them. If you buy new investments through the discounter, they should automatically be registered. The transfer doesn’t affect your ownership of the funds.

How much money are we looking at?

Brady says if you are paying 0.5 per cent in trails and your investment is growing by 7.5 per cent a year, you’d receive



about \$390 over the first five years of a \$25,000 investment. Over time your rebate will grow, especially if it’s a product such as super that you’re adding to regularly. Brady says margin loans also typically pay trails of 0.5 per cent and insurance policies can pay as much as 5 to 40 per cent for years after the policy was taken out.