Strategy UPDATE
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Understanding Investment Costs

There has been a lot of talk in the financial media of late regarding investment fees and advice. We think that this is a good thing. Canadians need to understand the "costs" associated with their investments – what they are paying – and the cost of advice – if any – accompanying those investments. Quite simply, fees matter, and can have a profound impact on an investment portfolio over the longer term. As a progressive financial planning firm, we at Polson Bourbonniere Financial have fees on the agenda for your progress review meeting in 2014.

Examining the costs

Let's take a look at the cost of owning a mutual fund in Canada. The industry average management expense ratio (MER) amounts to almost 2.5%. (At Polson Bourbonniere, however, we are able to design portfolios for considerably less based on the structure of investments and size of account.) The MER encompasses a number of costs, including the cost of managing your money, along with operating costs.

"Bundled" scenario

Historically, all costs in a mutual fund have been "bundled", meaning they are packaged together as part of the MER. You don't see them on your statement, but they are reflected in the unit price of the mutual fund. For example, you invest $10,000 in a mutual fund where the MER is, let's say, 2.5% annually, so your first year costs total $250. You pay these costs indirectly, and they include the cost of investment management, fund administration, and taxes -- all built into the fund, along with the cost of advice and investment dealer remuneration.

The portion of the MER paid to the investment dealer – in our case, HollisWealth – is known as a "trailer fee" and is generally in the 1 to 1.25% range - $100 in our example. At the investment dealer level this provides for administrative support as well as the compliance and regulatory oversight required by provincial law. Advisors, including us at Polson Bourbonniere, receive a percentage of the amount paid to the dealership, and that pays our operating costs and covers any number of our services, including advice to you on financial planning, investment due diligence, reviews and planning, retirement income planning, wealth accumulation, and tax and estate planning.

"Unbundled" Scenario

We believe that it is important that you know what your investments cost. We also believe that the cost of advice should be separate from the investment products being used. In other words, it should be transparent and visible to you – "unbundled". What does this mean, and why?

Using the same example, a $10,000 investment with a $250 cost, here's the separation of the investment management and advice components in the "Unbundled" scenario:

*$150 for investment management, administration and tax costs, and

*$100 for the cost of advice *paid directly by you* to your advisor and the investment dealer that your advisor is affiliated with. *(i.e. the cost of advice is* ***not*** *included in the cost of the investments, but is deducted from your investment accounts*).

That $100 is then shared between the investment dealer and advisor based on contractual arrangements. As with the "bundled" scenario, the dealer portion pays for administration expenses as well as compliance and regulatory oversight costs. And, the advisor portion covers the same operating costs and the same services to you – financial planning, investment due diligence, reviews and planning, retirement income planning, wealth accumulation, and tax and estate planning.

In both the scenarios illustrated, "Bundled" and "Unbundled", *the total cost of investing was $250, or 2.5%.*

To summarize, in the "Bundled" scenario the mutual fund company collected the cost of advice and passed it along to the dealer that the advisor is affiliated with.

In the "Unbundled" scenario, the cost of advice was paid separately.

In both examples, *the advisor was paid the same.*

Why use the "Unbundled" scenario?

For households with over $150,000 in investable assets, paying separately for the cost of advice has significant benefits. It allows us as your advisors to be unbiased in our use of product. We can recommend any investment product that fits your risk profile and your age and stage in life, without any potential bias from the compensation that would be paid under the "bundled" scenario. And, whether an investment needs to be bought or sold, no commission is charged, and in some cases, trustee fees can be eliminated. There is also the potential that the cost of advice may be tax-deductible for non-registered Open/Cash accounts of a minimum value, thereby decreasing your overall cost even further.

The "Unbundled" scenario also gives us the ability to reduce your overall investment costs through the use of both lower cost investment vehicles and innovative investment management strategies, and through tiering of fees based on account size.

From a cost perspective, investment management fees in mutual funds were historically viewed as the price you paid to improve the likelihood of beating the market. Academic studies have questioned the effectiveness of "actively-managed" mutual funds over the longer term – due in part to their higher MERs – but primarily because lower cost tools that were once only available to high net worth investors to capture market returns are now available at the retail level. The strong growth in the use of Exchange-Traded Funds (ETFs) is one example.

Newer portfolio construction techniques that give us the ability to gain exposure to broad market returns in a low cost, tax-efficient structure have also allowed us to drive down the cost of portfolios without sacrificing the expected returns, thereby creating real measurable value for our clients.

One final comment on costs. There may also be a further opportunity for you to save money. Ask your Polson Bourbonniere advisor whether consolidating accounts held outside of Polson Bourbonniere with those you have here would lead to lower overall costs.

Getting the Right Advice

Knowing what you are paying for is important, but so is ensuring that you are receiving value for the accompanying advice. The cost of good advice pays for itself over and over. Your current and future well-being can be enhanced through effective planning advice that adds real value, whether it's through portfolio design, tax reduction, income structuring, or estate planning. Investing with discipline, adhering to an asset allocation strategy, and keeping an eye on fees and taxes, are all part of the daily care and feeding of a portfolio. And more importantly, anchoring your portfolio to a financial plan that addresses all of your financial risks, not just those in the stock market, is the cornerstone of a Worry Free Retirement Experience™.

Having the Fee Conversation

Having a knowledgeable Certified Financial Planner® professional that cares about you is one of the best financial decisions you will ever make. Many of you have already had your "fee conversation" with your Polson Bourbonniere Certified Financial Planner®. As part of our commitment to you, we will continue to have this discussion with everyone in the months ahead. We at Polson Bourbonniere are taking a leading role in ensuring that our clients get the most value possible from your financial planning experience.

Registered Disability Savings Plans

Lydia Bzowej, BA, EPC, CFP®

The Registered Disability Savings Plan (RDSP) was introduced by the federal government in 2008 for Canadian residents with disabilities. This is a powerful investment and planning tool that can help plan for the long-term financial security of those living with disabilities. Along with your contributions the government offers grants and bonds that help you accumulate more for those you love.

What is it?

The RDSP is a registered savings plan that allows for tax sheltered growth of the earnings. While contributions to the plan are not tax deductible, earnings, grants and bonds accumulate tax-free until the money is taken out. Depending on income, annual bonds of up $1,000 and annual grants of $3,500 can help the plan grow at an even faster rate.

Who is eligible?

Anyone who can claim the Disability Tax Credit may be eligible to be the beneficiary of an RDSP. To establish the plan, they must be a Canadian resident, be under the age of 60 and have a valid Social Insurance Number. The beneficiary of the plan can also be the account holder provided they are of legal age and can legally enter into a contract. Otherwise, the account holder can be a spouse, common-law partner, parent or guardian of the beneficiary. The same rules apply if the beneficiary is a minor.

How does the government help?

The Canada Disability Savings Grant (grant) and the Canada Disability Savings Bond (bond) are two ways the government helps build your RDSP. Grants can add up to a maximum of $3,500 per year to a lifetime maximum of $70,000. Bonds can add up to a maximum of $1,000 per year to a lifetime maximum of $20,000. How much you receive depends on the net income of the beneficiary (and spouse, if applicable) in the calendar year in which the beneficiary turns 19. For minor beneficiaries the family's net income is used.

It is very important to note that if you are opening an RDSP in 2014, you can catch-up on grants and bonds from 2008 if the beneficiary was eligible to receive them. You are allowed to catch up on unused bonds up to an annual maximum of $11,000 and grants to an annual maximum of $10,500.

The following table outlines how the grants and bonds are received:

Net Family Income	Contribution	Grants	Bonds
$25,584	No contribution required	None	$1,000
$25,584 - $43,953 (no bonds if greater than $43,953)	No contribution required	None	Up to $1,000 pro-rated on family income
$87,907 or less	$1,500	$3,500	$1,000
Greater than $87,907	$1,500	$1,000	$1,000

Withdrawals

Beneficiaries can access funds through regular annual income payments and periodic lump-sum payments. Payments can be used for any purpose and are made up of contributions (non-taxable) and earnings, grants and bonds (taxable to the beneficiary). There are a number of rules associated with the withdrawal program so see your Polson Bourbonniere Certified Financial Planner® for more details. One important note: income payments from RDSPs do not affect income-tested government programs such as OAS, GIS and CPP as well as social assistance programs in most provinces.

Investing

There are very few financial institutions who offer the RDSP plan but at Polson Bourbonniere we partner with one carrier who has a wide array of investment options suitable to all investment profiles. Please see your Polson Bourbonniere Certified Financial Planner® for more information.

Polson Bourbonniere team profiles

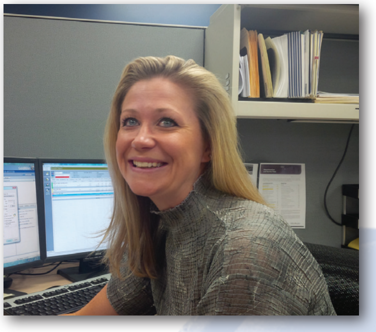
Catherine Kwan
Client Relations Manager

Catherine left Hong Kong more than 15 years ago, accompanying her family and joining a number of family members already here in Canada. Although her husband, Raymond, is also from Hong Kong, the two actually met and married over here.

Catherine began her career in financial services when she arrived, spending many years at MacKenzie Financial and latterly at B2B Trust. While there she gained experience in a number of departments, and also completed her Canadian Securities exams. Her combination of experience and education quickly made her an asset to Lydia and her clients when she joined Polson Bourbonniere in March 2013.

Although she has pursued a career in the financial industry, Catherine's true passion is baking. She is currently wrapping up a 10-part program at George Brown and with the completion of one more course she will have earned her Certificate of Baking Arts.

The Polson Bourbonniere team has been the lucky recipient of many of Catherine's classroom projects. We particularly enjoyed her Pie Class and are looking forward to her next course – Advanced Cake!



Meghann Aimers
Client Relations Manager

Meghann joined Polson Bourbonniere in January 2013, bringing 10 years of financial services experience to the team. Drawing on her previous positions with Dundee and the CIBC, and utilizing the technical knowledge she gained through her Canadian Securities courses, Meghann is able to provide Kirk, Derek and their clients with knowledgeable and accurate service.

Meghann is a doggy-mama to Hank, a Dogue de Bordeaux, and Tallulah, a Bull Terrier. Fortunately for the dogs, Meghann and her husband Brett enjoy living the country lifestyle with lots of outdoor time for all. Living in Sunderland gives the family easy access to their beachfront cottage where they enjoy all the seasons have to offer. Golfing in the summer, snowmobiling in the winter, and skeet shooting in between are just some of the couple's hobbies.

As a born and bred Torontonian, Meghann makes the most of having her family and circle of lifelong friends nearby. She and Brett love to entertain and especially enjoy summer days on the lake, backyard barbeques and county fairs!

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