

# Fees still too high for investors

*"I don't see any reason why anybody should pay a wealth management provider anything more than 1%."*

Interview by Donna Guzik

**IC:** Welcome to InvestorCanada.com. I'm Donna Guzik.

After years of working in the financial sector, Wilfred Hahn decided he had enough of working in an industry that seemed more interested in lining its own pockets rather than helping clients.

So he took his 20-odd years of experience on the street and started a different kind of company. He founded Hahn Investment Stewards & Co. in Grimsby, Ontario. It's a global portfolio management firm. Wilf Hahn joins me now.

Wilf, why did you decide to start this company and how is it different than what you were doing before?

**Hahn:** Well, it's very different and it's in answer to the different times that we're living in right now. As you've introduced me, I've been on the street 20 years as a global portfolio manager and working for an industry that claims that they're wealth management professionals and the question I think a lot of people have these days is whose wealth are they managing?

We've been through some very, very difficult times and there's quite a groundswell of discontent clients out there who are looking at what's happened to their wealth, the performance of their portfolios, mutual funds, whatever, other wealth management products. And one of the things they do realize is that they've paid some very, very high fees for that kind of advice.

I say the world has changed, and it has in a number of ways. There are new technologies that are offering new types of investment vehicles.

Importantly, ones that can be used by savers, investors at a much, much lower cost. We're also in a different return world. Yes, markets are down for three years and equity markets won't go down forever. There's going to be some upward swings, and so

forth.

But it is a different world. I call it a world that's facing an income crisis where we have low interest rates. As we can see out there, corporations have a hard time making some good profits. And it's an environment I think that's going to be around for some time.

If one were to expect returns of five or six percent, which isn't that ridiculous from leading lights in the investment management business like Mr. Buffett, they think returns will probably be on average 6-6.5 percent for quite some time. One can't pay half of that return to wealth management providers.

Most will know that the average mutual fund out there has an expense ratio of 2.55 percent and that by the way doesn't include all the expenses. There are other services that are much, much more expensive. So back to the original question whose wealth is being managed?

There are new ways of doing it, and that's what my new firm is all about.

**IC:** So are you suggesting that lowering fees would be the answer for the client?

**Hahn:** Finding new ways of doing things so that those fees can be lowered. I don't see any reason why anybody should pay a wealth management provider, quote "wealth management provider service" anything more than one percent. And as I say, there are some new ways of doing this. There is new technology.

For example, I'll mention a few. I can deliver a total institutional quality investment management service, which is global, by the way, and I can do it for clients for less than one percent. I use ETFs.

Maybe many might not be familiar with what ETF are. That stands for Exchange Traded Funds. The world of ETFs has really boomed in the last

year and a half and I think it's still on the leading edge. There are many, many more of these types of investment products coming out and they have some very, very significant advantages.

We can invest portfolios for clients with using them at a much, much lower cost, get broad diversification, get better tax consequences for people and it's available at a very, very low cost. So we don't do stock selection.

As a professional who's managed large teams of portfolio managers around the world, having large staffs with analysts and so on and so forth, trying to pick the best companies in the world, the fact is research says that the portfolio management community does not add value by picking stocks.

**IC:** But there's a segment of the population out there who likes to hold stocks, who would like to have somebody manage a portfolio with a certain number of stocks in them.

**Hahn:** Yes, there's always going to be a constituency that wants to do that. But the fact is this: if we're in a low-income world where it's likely that returns on average will be six percent, to go that route and pay portfolio managers high fees, say average equity mutual fund of 2.55 percent, to do that and by the way, the research says that the average portfolio manager under performs his benchmark or her benchmark, why pay that when there is no value being added?

Yes, there are some good portfolio managers out there. I know some. I count them as friends. But the trick is can you predict which portfolio manager is going to outperform next year? It's like picking a stock in itself.

**IC:** The fund companies, the fund industry is saying though that fees are coming down.

**Hahn:** I think the facts say they are not. They are going up. There's an

interesting piece of research put out by Jonathan Chevreau, around late January, and he showed some very interesting statistics that says that point in fact, fees have gone up.

I'm not suggesting by big leaps and bounds, but even in a down market, in a difficult market to sell mutual funds, the fees have not gone down.

**IC:** Do you think investors are becoming more aware of the wealth management industry and the fees that are being charged because it has been a bear market for three years?

**Hahn:** I think it has heightened people's sensitivity to that question, yes. In environments where markets seemingly were going up, equity markets, I'm referring to, seemingly were going up 20 percent per year through the sky forever.

Yes, folks may have gotten a little greedy and maybe not paid attention to the facts. The fees didn't matter so much in those kinds of days. But all of a sudden, we have a new environment where all of a sudden folks have woken up not to just the fees, but also to the risks.

They probably weren't as apprised of the risks as they should have been and now, they're waking up to that risk and looking back to their wealth management providers, saying well, why didn't you counsel me? Why didn't you provide better advice and at least give us the correct perspective on risk?

**IC:** But, Canadians are notorious for not pushing back. How likely is the Canadian investing public likely to turn to their advisors or to their brokers and say wait a second. I don't like this. I want a change or I'm going to take my business elsewhere?

**Hahn:** Well, I'm not sure you hear the stories that a prominent response is just not to open up the month end statements. People just don't want to be surprised with how poorly their portfolio has done.

I'd hope that they are going to their advisors and wealth management companies and complaining about it. And I guess the alternative is to do something else with one's money. But what do you do with it? Where should you go?

And I think the bottom line consideration these days, in addition to a couple of others, but the bottom line

one is what are the fees? A one percent difference in fees over 20 years or even longer periods of time, depending on when one retires, on the terminal value, one's savings makes a huge difference.

**IC:** So if investors are looking at the current environment, right now, a lot of people are very depressed. A lot of people have lost a lot of money.

There's lots of talk about the economies, both in Canada and the U.S., slowing continually. Markets don't look like they're going to pick up any time soon. What do investors do?

**Hahn:** Well, I guess the first thing is not to over-react; and secondly, to look at the facts. Yes, the markets are down three years running. To me, that's no surprise. I think the facts would have suggested that some financial assets, particularly equities, were radically over-valued.

They're still not cheap per se, but things do look a lot better than they did three years ago.

I want to say that though in the context of a longer-term perspective, and that is that I do think things will continue to be somewhat difficult for the next couple of years.

Some of the problems that have led to these kinds of markets haven't yet been resolved in the economies I'm referring to.

However, having said that, we have been through a pretty substantial fall and it's extremely unusual that these long bear markets don't at least have one significant recovery period in between.

And probably one is going to start in the next couple of months, I think, because there's so much pessimism out there. There are quite a number of things that I think argue that probably we'll get a bounce at some point.

But I have to say that in the context of a longer-range view which says that, things will likely remain difficult.

#### **Summary:**

- Wilfred Hahn started Hahn Investment Stewards & Company, a global portfolio management firm to get away from an industry he felt was more interested in lining its own pockets than those of its clients.
- He says we currently have an "income crisis" in which interest

rates are low and companies have a hard time making profits.

- Investors can expect returns of about 6% for some time, but one can't pay half of that return to wealth management providers.
- With most equity mutual funds charging a 2.5% management fee, who's wealth is really being managed?
- Especially when active equity fund managers generally don't tend to beat their benchmarks.
- There are cheaper ways to provide wealth management to clients with new technologies for fees of 1% or lower.
- One way is through Exchange Traded Funds (or ETF's).
- Research indicates that the portfolio management community does not add value by picking stocks.
- But there will always be a segment of the population who prefer to hold stocks and do prefer someone to manage them.
- There is no evidence that MERs are going down despite what the financial industry says.
- The current bear market has made investors focus more on the high management fees they've been paying for their wealth management.
- A 1% difference in fees over 20 years makes a huge difference to an investors' portfolio.
- As for what investors should do in the current market environment: Don't overreact. The markets are down but things still look better than they were three years ago.
- Things will continue to be difficult for the next few years but we have been through a substantial fall and it is unusual that these bear markets don't have a significant recovery period in-between.
- We are probably heading towards some sort of bounce back in the next few months.