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# Spoiled advisors want their 1%

New offerings are ETFs --but with the high costs of mutual funds

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By adding 1% trailer fees to the management expense ratio of the underlying ETFs, much of the cost advantage of traditional ETFs is cancelled.

The trouble with Invesco Trimark Ltd.'s new Power shares Funds is it's hard to suck and blow at the same time. Forgive my use of the vernacular, but it's an apt way to summarize the conflicting currents swirling around these new hybrid ETFs-in-a-mutual-fund-wrapper.

The latest in a string of critics of the funds is Rudy Luukko, the influential investment funds editor for Morningstar Canada. He says pressure from ETFs to lower mutual fund fees conflicts with comparable pressure to keep advisor compensation up. By adding 1% trailer fees to the management expense ratio (MER) of the underlying ETFs, much of the cost advantage of traditional ETFs is cancelled.

This "embedded compensation" is one reason Canada's mutual fund MERs remain so stubbornly high. Apparently, the industry has decided advice is "worth" 1% of assets a year, no matter how much or how little a client needs or wants.

From an advisor's perspective, this is a significant new product. It gives the 50% of advisors who aren't licensed to sell ETFs a way to respond to clients demanding to jump on the ETF bandwagon.

It also gives securities-licensed advisors who could already sell ETFs a way to get paid more. Normally, brokers get paid on ETFs only when clients buy or sell them, generating transaction-based commissions, as individual stocks do. ETFs sold by majors such as Barclays or Vanguard don't pay trailer fees. The exception is Toronto-based Claymore Investments Inc., which pays 0.75% trailers on its Advisor class ETFs. Naturally, the resulting MERs are 0.75% higher than Investor class Claymore ETFs that carry no trailers.

In video interviews airing this week, Invesco Trimark president Peter Intraligi emphasizes MERs of the new funds are lower than comparable actively managed funds. He says portfolios blending both provide better "risk-adjusted" returns.

MERs appear reasonable if you look only at the F class versions. But investors can buy

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