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How to invest your first $100,000

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Perhaps you've been able to put away a little money here and there and now your savings have grown to about $100,000. How can you manage it best?

Fortunately at $100,000 you have good choices. While that's not enough to attract most brokers and portfolio managers, there are plenty of qualified advisers who can help you build a well-diversified portfolio using mutual funds. Or you can build your own portfolio with mutual funds or exchange-traded funds (ETFs) and save a bundle on fees.

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"My first principle is know yourself, how much you do know and how much you don't know," says Eric Kirzner, professor of finance at the Rotman School of Management, University of Toronto. While building a good, well-diversified portfolio on your own isn't "brain surgery," you still need to understand the financial basics or you can get into trouble, he says.

You can get help from an adviser building a portfolio with mutual funds at bank branches or with independent mutual fund dealers. But having a licence to sell mutual funds ensures only basic knowledge, and adviser skills vary widely. If you're looking for in-depth help, look for recognized credentials such as those for a certified financial planner (CFP) or personal financial planner (PFP).

Putting together the right portfolio for your situation is more than just picking some good investments and ticking off boxes on a compliance form. The adviser should take the time to understand your objectives, risk tolerance, time horizon and other circumstances.

"They should be trying to really understand the client, what they're trying to accomplish, how much they really understand about risk, then develop an asset mix that really matches up to the client profile," says Mr. Kirzner.

The adviser should help you make good use of tax-deferred accounts such as RRSPs, TFSAs, and registered education savings plans (RESPs). They should be forthright in disclosing fees you pay and meet with you once a year or more to review investment performance – ideally compared to an appropriate benchmark – then rebalance your portfolio. They should also provide some help with financial planning and, in some cases, may be willing to prepare a full-blown financial plan as part of a long-term relationship.

It's easy to end up just being sold a bunch of mutual funds in a one-time transaction. "It's all about you understanding you're paying a lot of money and demanding the service that comes with it," says Gordon Stockman, vice-president of financial planning at Efficient Wealth Management Inc. of Mississauga, a financial planning firm that also helps clients select investment professionals. "It's up to you to say 'I need a little bit more advice, can I talk to the financial planner?'"

You'll pay roughly $2,000 or more a year in investment fees on a $100,000 balanced portfolio of stocks and bond mutual funds bought through an adviser. But you may never realize it because the fees are quietly deducted behind the scenes.

"It's important for investors to know what they're really paying," says Mr. Kirzner. Total annual investment fees are typically around 2.5 per cent for equity funds and 1.5 per cent for bond funds. From that total, the adviser and their financial institution typically get a "trailer fee" of around 1 per cent for equity funds and 0.5 per cent for bond funds. Your adviser and their institution continue to draw those fees from your investments for as long as you hold the funds, whether the adviser provides good follow-up on the initial transaction or not.

If you have the knowledge to invest well on your own using a discount brokerage account, you can save a lot of money. If you're trying to track market performance closely while paying low fees, you'll want to buy ETFs or index mutual funds. ETF fees typically run between 0.15 per cent and 0.5 per cent a year plus a small transaction fee when you buy or sell. Index mutual funds purchased online typically cost a bit more – about 0.7 per cent a year – but you generally pay no transaction fee. Mr. Kirzner has developed a simple "Easy Chair" portfolio using ETFs, while other versions go by names like "couch potato." You can get advice on how to create simple portfolios using ETFs or index funds at canadiancouchpotato.com *[http://canadiancouchpotato.com/]*.

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A major challenge is to avoid paying big bucks for advice you don't get. Fortunately, there are good mutual funds that charge relatively low fees because they don't pay high trailer fees for advice – but you have to hunt for them. These include offerings of specialized mutual fund providers (such as Mawer; Beutel Goodman; and Phillips, Hager and North), as well as low-fee "D-series" versions of higher-fee regular funds offered by companies such as RBC, Mackenzie, BlackRock and Invesco.

Low-fee funds charge on average about 1.3 per cent for equity funds and 0.8 per cent for bond funds. This typically includes a small fee of about 0.25 per cent that goes to the discount brokerage for administration. A few discount brokers, led by RBC Direct Investing (which introduced the first D-series funds in 2007), make a special effort to offer and promote low-fee funds, but many other brokers may not even carry many of these low-fee offerings.

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