



The Cost of Investing

Participating in the securities market comes at a financial cost. This week's article focuses on the types of costs incurred by investors participating in the securities market. The products and services within the securities market are diverse and carries varying costs. Costs will be attributable to Broker-Dealing services, Collective Investment Schemes ("CISs")/Mutual Funds, Wealth Management, Repurchase Agreements and Asset Backed Securities.

Broker-Dealing Services

Broker-Dealers who are members of the Trinidad and Tobago Stock Exchange ("Stock Exchange") can trade securities on behalf of clients. Broker-Dealers normally charge a fee that can range approximately between 0.5% to 1.5% of total transaction value and these fees are normally to cover their costs of operations and profit expectations. Apart from the broker-dealer fees, the Stock Exchange has a transaction fee of 0.14% of the value of transactions (buying/selling) along with a Trinidad and Tobago Central Depository ("TTCD") fee of 0.07% of the value of the transaction (buying/selling). Investors should also be aware that with the introduction of self-directed online trading, on the local equity market via the Stock Exchange online trading platform ("TOP"), fees can also be impacted due to the digitisation of processes. Investors are encouraged to review their broker-dealer options to ensure they are obtaining the most cost-effective option when trading in the local equities market.

Collective Investment Schemes ("CISs")/Mutual Funds

CISs, or mutual funds, are investment vehicles, which allow for the pooling of investor resources to create a more diversified portfolio and receive the benefits of large-scale investment opportunities. Investors effectively own portions of the overall pool through units/shares which are proportional to their contributions. Fees are typically paid out of the managed pool of assets for services provided by the Sponsor/Promoter, Trustee, Advisory, Manager, Distributor, Legal Advisor and Auditor.

Distributions/interest/dividends are deducted from the net income and profits of the CIS. These distributions are typically paid on a quarterly, semi-annual, or annual basis and are usually reinvested automatically in additional units of the CIS (unless otherwise stated). Investors should review the prospectus¹ of the CIS to understand the associated fees, as sometimes

¹ A document that provides details about an investment offering to the public

cumulative fees can amount to approximately 5% or more. Investors can compare fees among the various CISs within the securities market when making investment decisions.

Wealth Management

Broker-Dealers registered with the TTSEC are authorised to conduct wealth/portfolio management services on behalf of investors/clients. Wealth managers can have discretionary control of an investor's portfolio. The term "discretionary" indicates that the decision to buy and sell securities on behalf of an investor, will be made at the wealth manager's discretion. Section 61(2) of the Securities Act Chapter 83:02 of the Laws of Trinidad and Tobago states that a registrant, registered under section 51(1) as a broker-dealer, may only execute investment discretion over a client's account if (a) it has entered into a written agreement with the client granting such authority and (b) the agreement has been signed and approved by a senior officer of the registrant prior to the first transaction for the client.

Wealth management services involves building and overseeing a selection of investments that will meet the long and short-term financial goals and risk tolerance of an investor. Active portfolio management requires strategically buying and selling stocks, and other assets, to be competitive in the broader market. While fee structures vary across comprehensive wealth management services, fees are normally based on a client's assets under management. This refers to the total market value of the investments that a person or entity handles on behalf of investors.

Repurchase Agreements and Asset Backed Securities

A Repurchase Agreement ("Repo") is a financial agreement in which a dealer of securities transfers ownership of securities to another person (investor), or creates a beneficial interest (whether whole or fractional) in securities in favour of another person (investor), with or without provisions allowing for:

- (a) The substitution of the underlying securities by the dealer, or
- (b) The entitlement of the dealer to the coupon rate on the underlying securities.

The parties agree on a future date the securities will be repurchased by the dealer on the terms and conditions specified in the agreement.

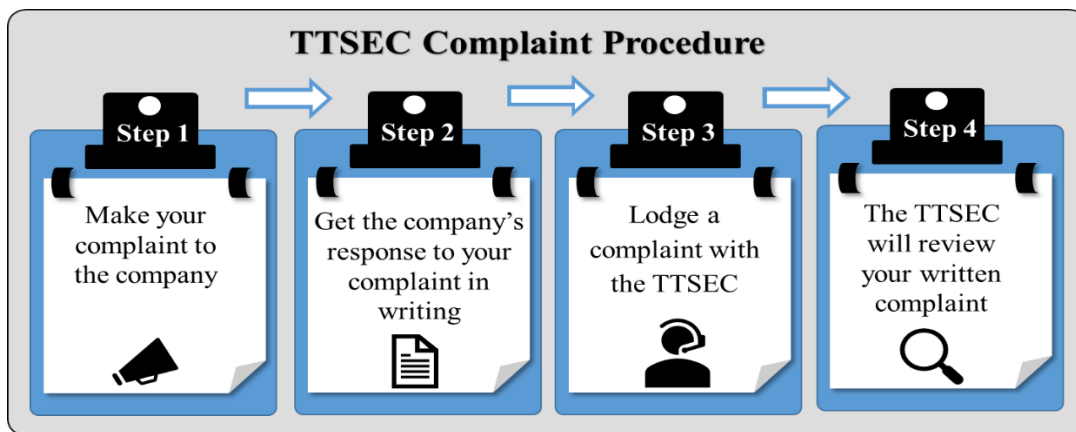
While there are typically no fees associated with a repo, there is the opportunity costs of an investor choosing to forego another investment in favour of the repo. Based on the TTSEC Securities Market Bulletin issue #7, the average return on Repos is approximately 2.9%.

An asset-backed security means any security that is primarily serviced by the cash flows of a distinct pool of receivables or other financial assets. Similar to repos, asset-back securities may not necessarily carry a distinct fee, but rather investors will be faced with the opportunity costs of choosing to forego another investment in favour of the asset backed security. Investors must always review the prospectus of all securities and ensure they are registered with the TTSEC before investing.

Make the Right Choice

There is a possibility that many investors ignore the relevant costs associated with participating in the securities market. Some may find cost structures to be confusing or obscured by fine print and jargon. It is extremely important that investors properly understand the costs being incurred. Investors must ensure they are receiving the right value for money, demand that all costs are disclosed and ensure that any of their concerns associated with fees are addressed. Investors should conduct their own research on market fees, where possible, to ensure they are receiving a competitive, cost effective and high-quality service/product.

If investors are not satisfied with a product or service, a complaint should be made in writing to the associated broker-dealer or entity as they are entitled to receive some form of redress and or further information on alternatives available. Investors are reminded of the TTSEC's complaints procedure and are encouraged to download and utilise the TTSEC's Investor Protection App (IPA) where necessary.



For more information on the securities market and the role and functions of the TTSEC, please visit our corporate website at www.ttsec.org.tt. To become a smart investor, [download our IPA via the Google Play and Apple Stores](#). You can also take the investor education online course on our investor education website, www.InvestUcateTT.com, and test your knowledge in our interactive investing game InvestorQuestTT at www.InvestorQuest-tt.com, and remember, to connect with us via Facebook; Twitter, Instagram, LinkedIn or You Tube.

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Published Article – Business Express Newspaper
March 09th, 2022