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What Are The Comparative Costs of Using Investment Plan Platforms Rather Than Online Stockbrokers to Transact ETPs?

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An interesting article in the latest issue of Personal Finance Magazine (3rd Quarter 2013), entitled *"Index Funds – Keep Track of the Costs"* by Bruce Cameron, contains helpful information on the use and costs of index tracking funds, including Exchange Traded Products (ETPs).

Part of the article discusses the cost differences between using an online stockbroker and an Investment Plan (such as those operated by Satrix and etfSA.co.za) for investing in ETPs.

The article by Bruce Cameron suggests that it is cheaper to invest in ETPs using online stockbrokers (or in this case, Standard Bank Online), rather than, say, etfSA.co.za. However, this is not the case. As the underlying article shows:

- The calculation by Personal Finance that it is cheaper to do a **once-off R105 000 trade** through Standard Online rather than etfSA.co.za, is not correct. The etfSA.co.za cost are one-third cheaper on an annualised basis and two-thirds lower on a monthly basis.

- **Reinvestment of dividends** (four times a year) are cheaper through etfSA.co.za rather than Standard Online, due to the "bulking" facilities for stockbrokerage and the single annual administration fee charged by etfSA.co.za

- **Debit order investments**, which cannot be done through stockbrokers in any event, are substantially cheaper to do through an Investment Plan. Even in the two cases where retail banks offer monthly debit order share purchase facilities (for a very select number of ETFs), these bank's schemes are significantly more expensive than etfSA.co.za

- For online investors, wishing to **actively trade or switch** ETPs as an asset management or portfolio strategy, etfSA.co.za has significant cost advantage to Standard Bank Online stockbrokers.

1. Once-Off Trading Cost

The cost figures compiled by Personal Finance appear to find that the Standard Bank Online stockbroker platform is cheaper than, say the etfSA.co.za Investor Plan, for an investment of R105 000 in an ETF.

Standard Bank charges a brokerage charge of 0,5% per trade (with a minimum of R50 per trade), plus R60 per month administration fee. If you do more than 3 trades a month, the administration fee falls away. However, as 3 trades a month will cost at least R150 per month (R50 minimum times three), i.e. R1 800 per year, most investors would probably see the R60 per month minimum, i.e. R720 per year, as the preferable option. **The annualised fee of doing a R105 000 trade in an ETP through Standard Online would then be R1 245.**

etfSA.co.za, which transacts through an Administration Category III FSP (LISP), Automated Outsourcing Services (AOS), the same administrator used by Satrix, has a brokerage charge of 0,1% per trade, plus an annualised fee (which is only fully deducted over a 12 month period) of 0,7% per year.

Their brokerage is R105 and the annual fee is R735, **a total annual cost of R840,** significantly cheaper (by R405 per year) than Standard Online. These cost calculations are shown in Table 1.

Table 1

Annual Costs - Once-Off Trade in ETFs (Lump sum R105 000 investment)			
	Brokerage (R)	Administration Fee (R)	Total (R)
Standard Online	(0,5%) 525	(R60 per month) 720	1 245
etfSA.co.za	(0,1%) 105	(0,7 per annum.) 735	840
Difference			**405**

It is possible that Personal Finance is calculating the 0,7% annual fee for administration charged by etfSA.co.za as an upfront fee and not realising that it is only realised over a full 12 month period. The upfront fee would then be $1/12^{th}$ of the annual administration fee.

Calculating the costs of a R105 000 once-off transaction on a **one month basis**, the monthly administration fee is R60 charged by Standard Online and the one month portion of the 0,7% annual fee charged by etfSA.co.za, is also R60.

Table 2

Once-Off Trade in ETFs (Lump sum R105 000 investment – One Month Costs)			
	Brokerage (R)	Administration Fee (R)	Total (R)
Standard Online	(0,5%) 525	(R60 per month) 60	545
etfSA.co.za	(0,1%) 105	(0,7% per annum.) 61	166
Difference			**419**

The bulked stockbrokerage charge of 0,1% charged by etfSA.co.za, is significantly lower than the 0,5% stockbrokerage charged by Standard Online, meaning a saving of R419 doing such transactions through etfSA.co.za.

2. Reinvestment of Dividends

Most investors know that to generate the best long-term returns from investing in equities, bonds and other income paying products, all distributions need to be reinvested. Capitalising dividends or interest payments in this manner provides a total return and significantly enhances the capital return of investments over time.

etfSA.co.za allows all its investors to elect for dividends to be automatically reinvested and most investors plump for this option. A brokerage charge of 0,1% is incurred for dividend reinvestment, but the admin charges related to these automatic transactions are included in the annual administration fee.

In the case of Standard Online, each dividend reinvestment is recognised as a separate trade and the 0,5% brokerage rate per trade applies for the investment of each of the quarterly dividends with a monthly administration fee of R60.

In this example, in order to help the Standard Online case, we have looked at a large trade, R1 million lump sum investment in Proptrax Ten ETF, which pays a 7,25% dividend yield (6,16% after withholding tax of 15%). This means there is R61 600 of distributions to reinvest during the year.

The R1 million investment example is used because Bruce Cameron states that all large investments (over R100 000) are cheaper using an online stockbroker.

For this example the investment costs of purchasing R1 000 000 Proptrax Ten, plus reinvestment of dividends and administration incurs total costs of **R7 056 over the year for Standard Online.**

The same transactions on **etfSA.co.za costs R6 560,** a saving of **R496**.

Table 3

Annual Reinvestment of Dividends (R1 000 000 lump sum) (Plus Dividends of R61 600 per annum)				
		Brokerage (R)	Administration Fee (R)	
Standard Online				
Lump Sum	(0,5%)	5 000	720	
Dividends	(0,5%)	308	-	
Total				7 056
etfSA.co.za				
Lump Sum	(0,1%)	1 000	5 500	
Dividends	(0,1%)	60	-	
Total				6 560
Difference				**496**

3. Investment by Debit Order

Online stockbrokers do not accept recurrent debit order investments, but it is possible to make regular monthly investments as additional investments on a once-off (manual) basis, rather than by the automatic debit order facilities offered by etfSA.co.za and other LISPs.

Two banks do offer monthly debit order facilities – FNB through its Share Saver Scheme and Standard bank through Auto Share Investment (ASI).

The **FNB Share Saver** does not allow you to chose your own shares (or ETFs), but they are "selected" for you by the Bank. A basket of 100 JSE listed companies, including the RMB Top 40 and RMB MidCap ETFs (FNB's own products), constitute the investment basket. This is a very indirect and involved way of getting exposure to only two ETFs. Costs are a minimum of R80 per trade, plus 0,4% per month monthly charge based of the value of the portfolio. **This adds up to R1 008 over a 12 month period.**

Standard Bank's Auto Share Investment Scheme (ASI), seems attractive at R30 per month for a R1 000 debit order, **or R360 per year**. This appears to be relatively cost effective, but the shares offered by ASI appear to exclude ETPs, so is not really relevant.

The **etfSA Investor Plan**, administered by AOS, charges only 0,1% brokerage per R1 000 debit order transaction, i.e. R1. The administration fees of 0,7% per annum are only fully recovered over a 12 month period, so add up to R45 for the full year, and there are debit order charges of R3,50 per debit order or R42 per year. **The total fee over 12 months is R99**.

Standard Online - by contrast, doing regular monthly investments of R1 000 through Standard Online would incur the minimum brokerage charge of R50 per each transaction, i.e. a brokerage charge of R600 over 12 months, as well as the administration fee of R60 per month, or R720 per year, **a total fee of R1 320 compared with R99 for etfSA.co.za**

Table 4

Regular Monthly Investments – Annual Costs (R1 000 per month for 12 months) (Rands)				
	Brokerage	**Administration Fee**	**Other**	**Total**
Standard Online (R50 x 12)	600	720		1 320
Standard Bank Auto Share Investment (ASI)*	240	120		360
FNB Share Saver**	960	48		1 008
etfSA.co.za (0,1% x 12)	12	45	***42	99
Difference				**261 - 1221**
* *ASI excludes ETFs.*				
** *FNB Share Saver basket of shares, including RMB Top 40 ETF and RMB MidCap ETF, but no individual choice allowed, FNB picks the share basket.*				
*** *R3,50 per month debit order fee.*				

4. Active Portfolio Management

Most ETF investors, in the experience of etfSA.co.sa, look to build up a portfolio of different ETPs and seek to actively manage their portfolios, through additional investments, switches and asset allocation changes.

Online stockbrokers promote such portfolio activity by their clients, inter alia, by levying penalties if clients do not transact on a regular basis. But is it cheaper to actively trade a portfolio of ETFs through Standard Online rather than etfSA.co.za?

The example used here is a R600 000 investment, with ten trades a year of R60 000 each to facilitate a portfolio management situation.

Because stockbrokers, including online stockbrokers, levy a separate brokerage charge for each trade, with a minimum charge applicable in most cases, the brokerage charges are significantly higher than for etfSA.co.za, which has no minimum brokerage charge and charges a "bulked" stockbrokerage charge of 0,1% per transaction.

The administration charges levied by AOS are higher at 0,55% of the total assets under management, but this does not negate the lower brokerage charges applicable for etfSA.co.za. No matter how many transactions the investor does in a 12 month period, the etfSA.co.za annual administration fee will cover all the costs of such transactions in one overall fee. This "bulking" facility is not provided by online stockbrokers.

Table 5

R600 000 Investment with Ten R60 000 Trades per Year			
	Brokerage (R)	**Administration Fee (R)**	**Total (R)**
Standard Online			
Initial Charge	(0,5%) 3 000	720	
Ten R60 000 Trades	(0,5%) 3 000	-	6 720
etfSA.co.za			
Initial Charge	(0,1%) 600		
Ten R60 000 Trades	(0,1%) 600	3 300	4 500
Difference			**2 220**

As shown in Table 5 above, even actively trading investors benefit from lower costs using the etfSA.co.za Investor Plan, rather than using an online broker.

5. Buy and Hold Investors

The only case, where an investor could be better off using an online stockbroker is where they hold ETFs, for a value of around R250 000, and not the R105 000 used in the Personal Finance examples and sit in this investment, without reinvesting dividends, not doing any additional investments, nor switches or debit orders.

However, this accounts for only a relatively small portion of the investment population as most investors use Investment Plans to build-up savings over time through regular investments, adding different ETPs to their portfolios to balance their portfolios, to reduce risk or to enhance performance. Investment Plans are designed for this purpose and do this efficiently, with low costs and full choices for the investor.

One or two other small faults have crept into the Personal Finance article. It is stated that Standard Bank Online aggregates its clients' portfolios and charges fees in the overall size of the portfolio, but that AOS charges per ETF fund and does not aggregate the clients' overall portfolio. This is wrong, the fees applicable to the etfSA.co.za Investor Plan are charged on an aggregated total portfolio value for each client and not per fund.

A second mistake is to add the management fees charged by the Satrix Collective Investment Scheme to the costs of the AOS platform operated for the Satrix Investment Plan. The Satrix management fees are already contained in the Total Expense Ratio (TER) of each Satrix product and the TER is embedded in the price of any ETF traded on the JSE. Whether you buy a Satrix, or any other ETF, through a stockbroker (online or conventional broker), through an Investment Plan, or by any other securities service, the TER cost is exactly the same. It is not a cost paid consciously by the investor, it is already in the price of the ETF that trades through the Stock Exchange. To double count the TERs is completely wrong.

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