

Globe Investor

INVESTING

Why you're better off buying the fund company than the fund



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There's an old investing axiom: If you want to get rich, don't invest in mutual funds; invest in the companies that sell them.

The reason is simple. If you buy a mutual fund, you'll be paying hefty fees to a manager who, more often than not, won't even beat the benchmark index. But if you invest in a mutual fund company instead, part of the fees the company earns will wind up in your pocket in the form of dividends.

Think of it. Instead of handing over 2 per cent or more of your assets each and every year for the dubious privilege

of achieving mediocre returns, you'll be the fat guy with the cigar and suspenders collecting that 2-per-cent toll.

What could possibly be more beautiful than that?

Here's another reason to invest in mutual fund companies. The best ones raise their dividends regularly. So, while everyone else is cursing as they open their mutual fund statements, you'll be pocketing more and more cash, whether the stock market is going up, down or sideways.

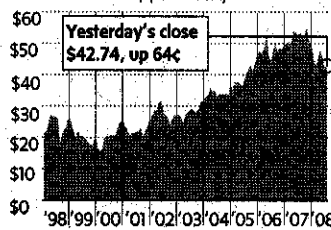
A great example of a fund company that raises its dividend regularly is IGM Financial Inc., which operates under the Investors Group and Mackenzie Financial banners (disclosure: I own the stock). Canada's biggest manager and distributor of mutual funds has hiked its dividend twice a year for more than a decade.

This week, it boosted its dividend yet again, by 5.1 per cent. IGM is now paying an-

IGM Financial: A dividend machine

Share price

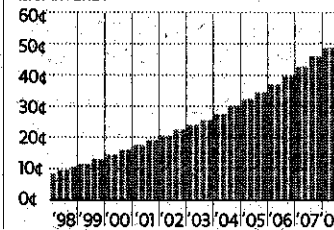
MONTHLY CLOSE, (IGM-TSX)



DOUGLAS COULL/THE GLOBE AND MAIL ■ SOURCES: THOMSON DATASTREAM, BLOOMBERG FINANCIAL

Dividends

QUARTERLY



nual dividends of \$2.05, which works out to a yield of 4.8 per cent based on the stock's closing price of \$42.74 yesterday.

To really appreciate what a dividend machine IGM is – an attribute it shares with other companies in the Desmarais empire – you have to stand back and look at the big picture. Ten years ago, the stock traded at \$25.75 and paid annual dividends of just 38 cents. So, if you'd bought the shares back then and held on, you'd now be receiving more than five times as much dividend income annually. What's more, your shares would have risen by 66 per cent.

There's no guarantee IGM will keep delivering these sorts of returns. But clearly, the company is doing something right. Even with the bloodbath on financial markets over the past year, IGM still managed to increase profit during the six months ended June 30, to \$452.3-million from \$426.4-million a year

earlier. Most of the increase reflects IGM's share of the sale of affiliate Great-West Lifeco Inc.'s health-care business, but even if you strip that out, profit still rose.

And while the company – like others in the industry – has been grappling with redemptions from nervous investors, it's held up comparatively well. During the first half, both Investors Group and Mackenzie posted net sales.

IGM isn't the only mutual fund company with a track record of increasing dividends. AGF Management and CI Financial Income Fund both fit the bill, too. All three stocks have something else in common: They're trading well off their highs, making them attractive to bargain hunters.

It's your choice. You can buy a mutual fund and pay someone else to manage your money, or you can buy shares of a fund company and get a slice of the action for yourself.