

Step 4b: Investing with TD Direct Investing

TD Direct Investing is my personal top choice and what I recommend most often. The phone staff have been in my experience excellent, and there are no fees for buying/selling the e-series mutual funds⁴⁸, which themselves have the lowest MER in Canada (except for ETFs). It is also a highly rated stock brokerage, so you'll be set up to move to ETFs if/when your account grows to the point where it's warranted and you have the desire. As of March 2016, TD charges \$100 per year (in \$25 amounts every 3 months) for accounts smaller than \$15,000. You can avoid this fee by setting up a systematic investment plan of at least \$100/mo, which works great with automating your e-series purchases. There's no minimum amount needed, though because of the fees you should only choose them if you have \$15,000 to invest or will be able to contribute regularly with the automatic contributions.

More importantly, the TD e-series mutual funds strike a great balance between complexity and costs.

I will quickly note that you can also buy TD e-series mutual funds through TD's Mutual Fund (TDMF)⁴⁹ arm. You can set up an account in person at a bank branch or online, and then convert your mutual funds account to

⁴⁸ Note that the e-series funds have such low fees because everything is self-service: the staff in the branch **cannot** help you with e-series funds. The unofficial guide to TD's e-series funds is at <http://www.holypotato.net/?p=974>

⁴⁹ TD is made up of essentially separate companies loosely working together: TDMF operates and is regulated differently than TD Direct Investing/Waterhouse, but both allow you to buy TD e-series funds.

one capable of holding e-series (the form is available at www.tdcanadatrust.com/document/PDF/mutualfunds/t-deseriesfunds/tdct-mutualfunds-tdeseriesfunds-convertaccount.pdf). A TDMF account is *supposed* to be simpler and for the less-savvy investor, with no fees and only access to mutual funds (no stocks or ETFs), and you can even place orders in person with branch salespeople (for their other mutual funds). Unfortunately, the branch and phone staff at TDMF *cannot* help you with the low-cost e-series mutual funds. And there is no ability to hold cash in a TDMF account, so purchases and contributions are conflated into one step, which I personally find more confusing than the brokerage model, and makes preparing for a withdrawal complicated. There have also been cases where people have accidentally withdrawn from their RRSPs when trying to sell their funds. Finally, the know-your-client forms can restrict your ability to invest using an asset allocation that you think is appropriate unless you answer all of the questions in the most aggressive way possible.

A brokerage account – like a TD Direct Investing or Questrade account (which I will further detail below) – is completely self-directed, whereas a mutual fund account may involve meeting with a salesperson to periodically review your paperwork, which subjects you to their sales pitches that might draw you away from the efficient e-series funds towards ones with higher MERs. Even if they offer to help you to buy “index funds”, assisted transactions will likely end up purchasing the more expensive “i-series” funds rather than the e-series you intended. Finally, if you do want to move to ETFs as your assets grow into the six-digits you will need to open a new account at a brokerage anyway. The supposedly simpler TDMF account leads to trouble more often than not, hence my recommendation to go with the TD Direct Investing route.

To set up your account with TD Direct Investing, visit www.tdwaterhouse.ca/apply/index.jsp and follow the instructions. In the process you can select non-registered, TFSA, RRSP, or all three, whatever applies to your situation. I would recommend always including a non-registered account even if you don't think you need it. Select **cash account**⁵⁰. Do not select option or short selling trading features. Those are again features that are not for the readers of this book; if you change your mind on margin, options, or short-selling, you can modify your account with the phone representatives after it's open.

You will have to provide some personal information to open the account, and may be required to provide a signature and a copy of your photo ID to a branch or directly to TD Direct Investing by mail/fax.

After a few weeks (sooner if you're lucky) your account will be set up and activated, you'll get a welcome package, and importantly, a login for WebBroker. You'll need to transfer money into your account before you can buy any mutual funds. From other banks, this can be set up as an electronic bill payment (just like paying any other bill, except you pay yourself!), and from a TD Canada Trust chequing account the transfer is even easier: just click on transfers when you're logged into EasyWeb. When transferring money in from a chequing account always use your non-registered account so you don't accidentally over-contribute to your RRSP or TFSA. You can easily transfer between sub-accounts within the WebBroker system once the money is in.

To buy e-series funds you'll need to know the fund code. To find the fund code (and more details on the funds), visit tdcanadatrust.com/mutualfunds/prices.jsp

⁵⁰ Margin accounts allow you to borrow against the value of your investments to buy more stocks/ETFs. This adds significant risk and is only for advanced investors.

and select e-series. Here’s a table with the four you’re most likely to need:

Table of TD E-series Funds

Fund Name	Fund Code	MER	Index Tracked	Notes
TD Canadian Bond Index (e-series)	TDB909	0.50%	DEX Universe Bond	Minimum purchase \$100; 30 day minimum holding period
TD Canadian Index (e-series)	TDB900	0.33%	TSX Composite Index (Canadian equities)	Minimum purchase \$100; 30 day minimum holding period
TD US Index (e-series)	TDB902	0.35%	S&P 500 Index (US equities)	Minimum purchase \$100; 30 day minimum holding period
TD International Index (e-series)	TDB911	0.51%	MSCI EAFE Index (international equities)	Minimum purchase \$100; 30 day minimum holding period

You’ll notice that for all four funds there is a minimum \$100 purchase. Note though that you don’t have to buy in

\$100 increments: once you meet the \$100 minimum, you can buy in any amount. So if you have \$450 to invest, you could invest \$100 in the bond index and \$116.66 in each of the others if you so choose. You can also sign up for a preauthorized purchase plan (PPP), where a certain amount can be automatically taken from your chequing account and invested for you monthly. For that plan the minimum monthly contribution is just \$25 per fund. These can be set up by phone for TDDI (or through the EasyWeb interface for TDMF accounts).

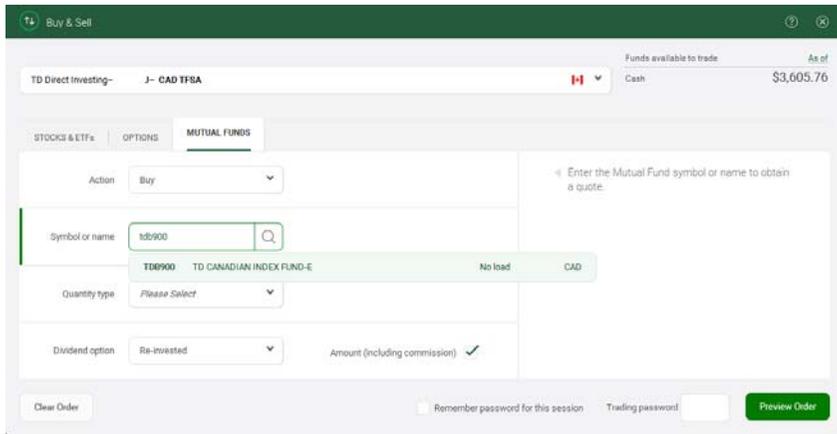
Once you have your account open, with money in it, and have planned out your asset allocation so that you know what to buy, it's time to dive in and make your first purchase!

First, click on Buy/Sell on the top of the screen:



Then, click on the “mutual funds” tab.

Select the account to buy in (Cash, TFSA, RRSP, etc) at the top, and with “action” whether you want to **buy**, sell, or switch. Then, enter the fund code and select the full fund name that pops up – this will display some details about the fund, and allow you to see the name that goes with the fund code to make sure you didn’t make a typo.



Here I've entered the code for the Canadian Index (TDB900), and indeed, that is the name that comes up, along with the -e at the end to indicate that it is a low-cost e-series fund (there are several funds called "TD Canadian Index Fund" each of a different "series" with a different set of fees/MER – you want the low-cost e-series version).

You can place your order by entering the total amount in dollars, or choosing the number of units you want with "quantity type". For example, on the day I took this screenshot the Canadian Index was at \$23.90 per unit, so if I chose 10 units that would end up costing *about* \$239.00 – I say about because the price is usually the last day's price, and not actually the price you would buy your mutual fund units at – the trade won't settle until the end of the day (or the next day if you enter your trade after 3pm). The easier and much more common method is to just enter the amount you want to buy in terms of dollar amount.

The final options – “dividend option” and “amount” can be left alone. The dividend option refers to whether the dividends that the fund pays out are automatically re-invested for you into new units of the same fund, or deposited as cash into your account. Generally, for automatic long-term investing, you’ll want them to be re-invested. The commission one doesn’t apply whether you check it or not as there is no commission to buy or sell the e-series funds.

Once your order is set up, press next, where you will get a summary of the order and a chance to confirm or cancel it. You may see some warnings on this summary page, including that your order will not be processed with today's price, and if you place your order after markets close in the afternoon you'll see a note that markets are closed for the day and your order will be processed on the next business day. Those are fairly self-explanatory and perfectly normal. So is a warning that the fund you are buying has a minimum holding period – that's just a reminder that you could face early redemption fees if you sell an e-series fund within 30 days of purchasing it.

A new warning for 2014 is “*TD Direct Investing receives a trailing commission from the issuing company for as long as you hold this investment. See the related offering documents for more details.*” This warning is part of new mutual fund disclosure rules, but it's unfortunately not very helpful. What this means is that a part of the MER you pay on the TD e-series funds *may* go to TD Direct Investing/Waterhouse. It does *not* mean that you're paying any more in fees than you expect to – a TD e-series fund will still cost you between 0.33% and 0.51%.

Following your approval of the order it goes into the system, and you will get a confirmation number to write down. You can now see your order under the “list orders” page (again, from the menu on the left). Note that there's an account drop-down here too, and each account (cash/non-registered, TFSA, RRSP) will have its own set of orders. It will take a few days (up to 3 business days) before you see the purchase reflected in your account balances – be careful not to spend your cash twice!

And that is very nearly it. Repeat the purchase process for each fund you wish to purchase, in each account. You can either manually purchase funds as you save up more money to invest, or call TD to set up a preauthorized purchase plan.

While managing four funds and entering the symbols yourself is more work than Tangerine, it is still quite simple and relatively easy to manage. The interface through WebBroker is fairly intuitive, though the error messages aren't always. TD's e-series funds are less than half the cost of Tangerine's funds, and are very reasonably priced even for larger accounts. You can, however, invest with even lower fees by using exchange-traded funds in a discount brokerage account, though that will come with some extra complexity.

In TD, purchasing ETFs works similarly. Click on buy/sell in the top menu bar, select the "stocks & ETFs" tab and enter the ETF ticker symbol – see the table in the next section on ETFs and Questrade for the tickers you should be interested in. You will have to select the ETF from the autocomplete list that comes up, and make note of the exchange the securities trade on with the flag icons beside them (this is slightly different than how Questrade's system works). All of the ETFs in the table trade on the Canadian exchanges except for VTI. Otherwise, the process is the same as what is described next for Questrade.