Three things to consider when you invest in investment funds

It's not just about fees. It's about reaching your goals – and how you get there.

So you're thinking about investing in investment funds. Do you have any specific goals or dreams in mind? Maybe it's a new home that you'll love. Maybe it's travel. Are there parts of Canada you've yet to explore? Or are you longing to fly off to faraway shores?

Perhaps you're saving and investing to send your children to university or college one day. Or you want to save for retirement so you can relax and enjoy your later chapters in life. Your future self will thank you!

Whatever your goal, investment funds can be an effective way to invest and build wealth. But how do you know which fund(s) to put your hard-earned cash into?

Some investors tend to think low fees are the only indicator of a good fund investment. But there's more to it than just your cost of investing. There are actually three main things to consider when choosing an investment fund: performance, fees and investment experience.

1. Higher fund performance over time, compared to other funds.

As a long-term investor, one of the best ways to achieve your financial goals is to build a portfolio with a mix of funds that can deliver appropriate returns across changing market conditions. So you will likely want to know: 'How does a fund perform compared to other funds in the same category?'

It's important to compare apples to apples. Bond funds, for example, have very different goals and investment strategies than an equity fund. There are also many different types of bond funds to choose from. The question to ask is, how does one bond fund compare to other similar bond funds? Not just in the latest year, but over several years or more?

One of the factors that can affect performance is how well a fund is managed. Researching the investment team can help you understand the performance story better. Two similar Canadian equity funds, for example, can deliver different returns in part due to:

- The richness of insights and research available to fund managers on changes in markets and the economy.
- The skills, experience and diversity of views that reside in the investment team.

Just remember: past performance is information to consider when choosing an investment fund. It can give you an idea of how the fund compares to other funds with the same investment objective. But it does not in any way guarantee what will happen in the future.

Tip: Look for funds with a good track record of performance over time and an experienced, diverse investment team with extensive insights and research available to them.

2. Look for funds with lower fees.

Like performance, fees can vary widely from fund to fund – even when you're looking at otherwise similar funds. Why does this matter?

Fees affect how much you can make when you invest. The fund's return minus fees equals your net return. When a fund's fees are at or lower than the industry average, more of the fund's return makes its way to you.

Again, fees are important but they are only one piece of the puzzle. A fund with higher performance can deliver a higher overall return after fees if its fees are competitive. The reverse is also true. A fund with lower performance may not deliver the best return after fees even if you pay lower fees to invest.

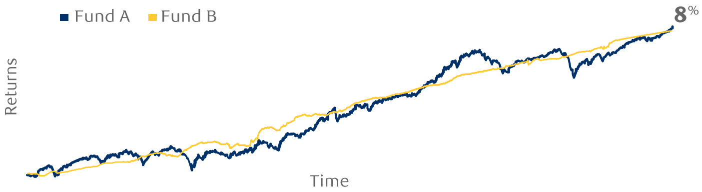
Tip: Low fees alone won't necessarily get you to your goals. Look for funds with a higher return after fees.

3. Look for smoother performance over time – not just the highest one-year returns.

Investing in last year's top-performing investment funds may seem like a good idea. But it often isn't. Each year there may be a new fund topping the return charts. What's more, two funds with the same total return may have taken two very different journeys to get there.

For example, Funds A and B below have both returned 8% over the past five years. As you can see, these funds got to the same place over time. But investors in Fund A had to endure more ups and downs (volatility) to achieve the same end result.

The journey matters as much as the destination



In the end, you have to decide how much volatility you're prepared to experience when you invest.

Final take-away

Fees are one of the main things to consider when choosing an investment fund, but they are not the only thing to focus on. Without higher returns and steady performance, you are less likely to stay invested and achieve your long-term financial goals. Also keep in mind your investment strategy, your tolerance for risk and how long you plan to invest before you choose a fund. These things are unique to you and can guide you in choosing funds that will fit well with who you are as an investor – helping you achieve your most treasured goals and dreams for the future.

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(09/2025)
022GAM046(09-2025)_THREETHINGSFORFUNDINVESTORSTOCONSIDER_EN_V209/23/2025