

Reducing Investment Fees Can Dramatically Increase Your Returns

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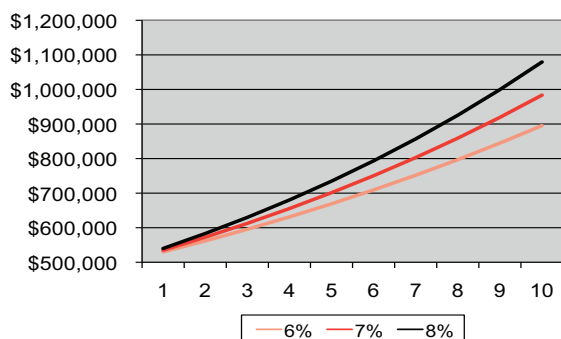
What would happen to \$500,000 if it grew annually at 6%, 7%, or 8%? At the end of 10 years, by simply earning 7% instead of 6% on \$500,000, an investor would have an additional \$88,152. If we were to compound \$500,000 at 8% for 10 years, the difference becomes \$184,039.

Instead of investing \$500,000, if you were to invest \$2,000,000, the difference of 2% would become a very large sum of money, \$352,608 (\$736,156 compounded).

In the world of investing, 2% can become a very large number. The graph below indicates what saving 2% can mean to your overall return. John Bogel, the founder of the Vanguard Fund Family, has stated that the largest determinant of overall returns in the mutual fund industry is expenses. The higher your expenses, the lower your return. It is almost that simple.

\$500,000

Year	6%	7%	8%
1	\$530,000	\$535,000	\$540,000
10	\$895,424	\$983,576	\$1,079,462
	Extra 1%	\$88,152	
	Extra 2%		\$184,039

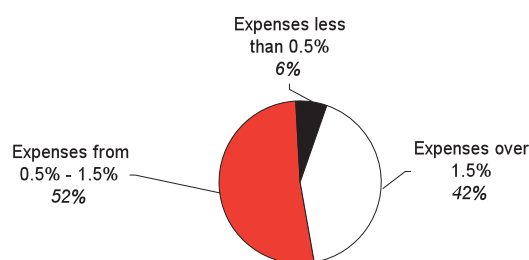


Expenses refer to mutual fund management fees, operational expenses, custodial charges, commissions paid, advisors fees, and all other type of expenses. In a recent meeting with a sophisticated physician who had just purchased the Franklin Income Class C Fund for a yield that is estimated to approximate 5%, I asked if he realized what he had purchased. He let me know that he avoided the front end load of 5%. I asked him if he understood that with Class C Funds, he would be paying an additional 1% management fee for as long as he owns that fund. He looked surprised. With a management fee and fund expenses in excess of .5% and a 1% additional management fee, he will earn closer to 3.5% of the projected 5.0%.

You may clearly see a management fee for a mutual fund, but can you see and have you really taken into consideration all of the expenses incurred in running that fund? The higher the turnover, the higher the trading costs, and the lower the returns. A rule of thumb is that you should take 1% of the turnover rate and reduce your returns by that amount. In other words, in an active mutual fund where the turnover is 50%, meaning that the average holding period for a stock is two years, the actual additional cost to you would be 0.5%. We haven't even discussed the tax cost of actively managed funds held in a non-tax deferred account.

Mason Road Wealth Advisors uses the Dimensional Fund Family, which prides itself on having extremely low fees. Their funds have very little turnover. The December 2004 addition of the Morningstar Principia database listed 15,736 mutual funds of all types and share classes that reported fund expenses. The median annual expense for all of these funds was 1.42%. In addition, more than 10,000 of these funds had a sales charge that was added to the overall cost. Approximately 6% of all mutual funds reported expenses of less than .5% per year as shown in the following illustration.

Mutual Fund Fees



Fund expenses have a consistently negative effect on your performance. The more you pay in expenses the less you will earn in returns. Isn't it time you put that extra 1% - 2% return in your pocket?

Bill Bender is a partner of Mason Road Wealth Advisors (MRWA) representing the well-respected Dimensional Funds. SLMMS has a special partnership with MRWA, which offers SLMMS members a discounted advisory fee and access to these highly sought funds with a lower minimum investment than commonly offered. For more information, call MRWA at (314) 590-0000.

