

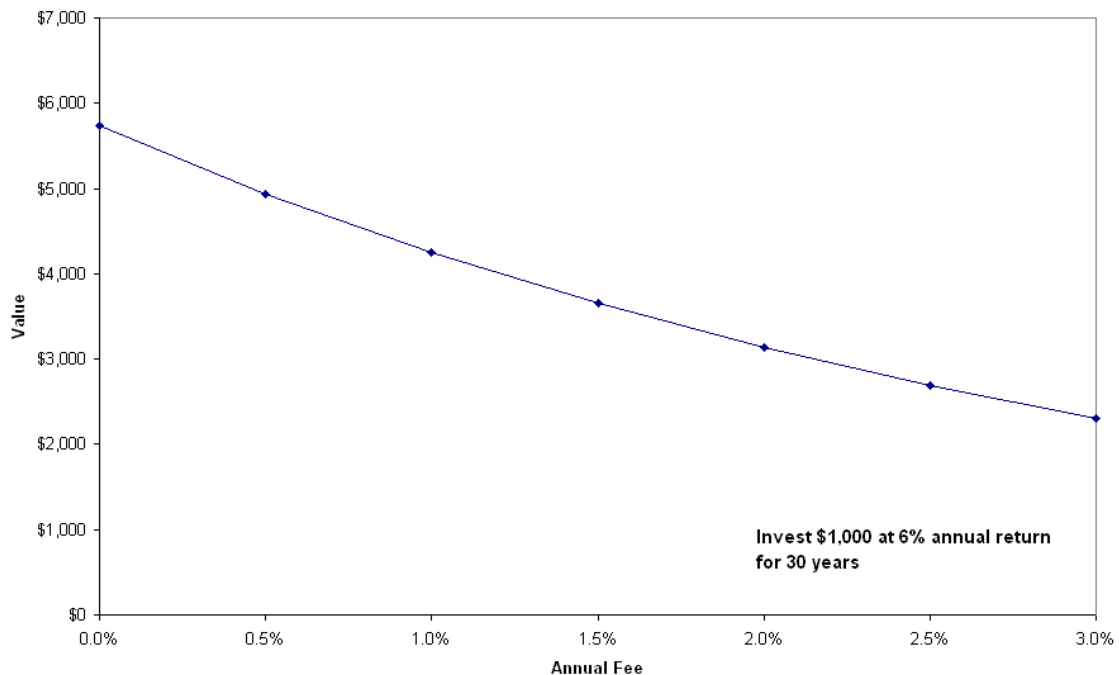
Investing Tips: Minimize Mutual Fund Fees to Increase Your Returns

Mary and Bob are long-term investors who invested in mutual funds. Thirty years ago Mary invested \$1,000 in a managed mutual fund that bought and sold growth stocks like General Electric, Intel and other large well-known companies. The fund did very well so after 30 years her original investment was worth \$4,941.61. Bob also invested \$1,000 in a managed fund that was almost identical to Mary's. But at the end of 30 years Bob's portfolio was worth only \$2,687.29.

Even though the holdings of the two funds were essentially the same, why did Mary end up with so much more money than Bob? Because Mary's fund charged much lower annual fees than Bob's fund, Mary got to keep much more of her gains. Each year Mary paid only a 0.5% fee but Bob paid his fund a 2% fee.

All mutual funds charge annual fees to cover their costs and the higher the fee the more your returns are reduced. Over many years this reduction due to annual fees is very dramatic. For example, if you invest \$1,000 and receive a 6% annual return for 30 years and pay no fees, your portfolio is worth \$5,743.49. But the same investment with a 2.5% fee leaves you with \$2,687.29. A 1% fee gives you \$4,248.46 after 30 years. A 3% fee leaves you with only \$2,303.18, a 59.90% reduction compared with a no fee investment.

Portfolio Value at 30 Years vs Annual Fee



Why do such small annual fees reduce your total return by so much? Each year the annual fee is assessed against the value of your portfolio. So as the portfolio rises in value, the dollar amount of the fee increases. Just as compound interest causes the portfolio to increase in dollar value, the same effect occurs with the dollar amounts of the annual fees - they just keep getting larger. So

the better the portfolio does and the longer you hold it, the more annual fees gnaw away at your returns.

The only good solution to this problem is to select funds that charge very low annual fees. Such investments include index mutual funds and exchange-traded funds (ETFs). These type of investments charge very low annual fees because they merely mimic popular indices like the S&P 500 and the Dow Jones Industrial Average. Therefore, no stock-picking expertise is required. On the other hand higher fee managed mutual funds from well-know mutual fund companies buy and sell selected stocks so they pass on their costs to you.

You cannot control whether stocks prices move up or down but you can control your investments costs. So before you buy any investment check out its fee structure and select low-fee investments. If you already own high-fee investments, consider switching to similar investments that have lower fees. Why give away your hard earned money?

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