

[Excessive investment costs are a huge problem for individual investors](#)

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Excessive investment costs are a huge problem for individual investors

Summary: Concerning asset management fees charged by mutual funds and ETFs, the average investor pays about .3% more than necessary on money market funds, about .75% more than necessary on bond funds, and about 1% more than necessary on stock funds. Additionally, individual investors pay sales charges, hidden transaction costs, marketing fees, and account holding fees that siphon away more of their assets and returns. The amount wasted is very substantial, because these seemingly small percentages are charged against trillions of dollars in assets. Paid year after year, excess management fees reduce returns and compound over the lives of investors. Unfortunately, paying higher fees does not lead to better returns. Overall, investment management firms do not deliver higher risk-adjusted returns for their fees. In fact, the opposite is true. Higher investment costs simply drive down investor's net returns. Investors can stop this waste, and they can either do it themselves or do it with a cost-conscious advisor. They do not need to pay overly expensive investment managers, advisors, and brokers. Excessive charges by industry distributors are part of the problem. Just as Americans have become more cost conscious in their pursuit of retail goods and services, they need to become much more cost conscious when they purchase investment products and services. Beating the market is an illusion that has been disproven consistently and repeatedly through scientific studies of investment fund performance. The hope of beating a market return is fostered by the industry to drive sales. However, the intense competition of the securities markets tends to make everyone average over time, not some superior. Despite slick industry marketing, investment funds are commodities and luck rather than skill dominates fund performance over time. Therefore, investors need to shift their purchases to lower cost vendors and stop chasing historical performance that does not repeat. When investment fees are stated as a percentage of one's assets, these fees might appear to be "just a few percent," but they are not. Investors' assets are just that -- their assets. They already own them. Investors pay management fees hoping for a better chance to preserve their assets and to improve their returns. To understand the true impact of these investment costs, annual charges should be compared to annual returns not to total assets. When visible and hidden industry charges are calculated as a portion of returns rather than assets, it becomes obvious that industry costs are huge. With double digit annual growth in the 1990s, costs seemed small. However, when total costs for actively managed investments purchased through commissioned advisors are compared to long-term historical investment rates of return, these costs consume between 1/3 and 2/3 of returns. Investors have no control over the securities markets, but they can control investment costs and thus improve their net returns. In other business realms, individuals would not allow anyone to take their property without providing commensurate value in exchange. Why should they give away some of their investment returns? Regrettably, in exchange for paying higher fees, the average investor will not obtain any better results than he would have with a passive, low-cost, market index investment strategy. In fact, the typical investor will fall further behind the market return over time as higher than necessary fees and hidden costs steadily siphon away his assets. The average investor holding individual stocks and bonds rather than mutual funds or exchange-traded funds tends to under-perform the market to a even greater extent. These

undiversified investors expose themselves to significant additional risks that are unnecessary and avoidable. Many investors pay additional fees for the dubious privilege of being advised to utilize high turnover investment strategies that cause them to trail the market return by a wider margin on average. In summary, each year the average investor probably wastes about 2% of his assets on unproductive and entirely avoidable visible and hidden investment costs. Many waste much more. On a \$100,000 portfolio, this is \$2,000 thrown away year after year without receiving commensurate value. This is \$2,000 every year that could have been reinvested and grow over time, instead of being given to financial intermediaries. This waste increases with the size of the investment portfolio. Furthermore, when one considers that these figures are pretax, it only adds to the bad news. Less than optimal investment strategies often accelerate the unnecessary recognition of taxes, which could be paid at higher short-term capital gains tax rates. This expensive mess is completely avoidable, and astute investors themselves can be in the drivers seat. The Skilled Investor provides numerous, scientifically-based investor education articles that discuss what investors can do. By themselves or with advisors whose interests are aligned with theirs, investors can optimize their investment affairs, control costs and taxes, and stop wasting their money and time. See these related articles: ->"[Beware of large, but hidden mutual fund costs](#)” ->"[How much do hidden mutual fund trading expenses cost you?](#)” ->"[Invest in fixed income securities through bond mutual funds with low investment fees](#)” ->"[Is it worth paying higher bond mutual fund management fees?](#)” ->"[Passive individual investors are “free riders” who benefit from the higher costs of active traders](#)" ->"[The investment industry is not your investment partner](#)” ->"[What is the cost to investors of sub-optimal diversification?](#)"