

[The heavy burden of recurring investment fees \(Part 2 of 2\)](#)

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[By charging fees as a percent of your assets, the investment industry can make their recurring fees seem small – like they are “just a few” percent. Furthermore, by charging fees against your assets the industry can still bill you every year, even if the value of your investment portfolio declines. An alternative client billing method would be to charge a percentage of your actual investment returns. Tying investment management performance to investment returns would seem to be a compensation mechanism that would be more closely connected to serving your investment growth interests. If your investment managers improve upon your risk-adjusted portfolio performance above an appropriate passive index fund benchmark, then they might actually earn their fees. \(See: \[The illusion of superior professional investment manager performance\]\(#\)\)](#)However, if investment managers were to charge against your returns and not your assets, then the percentage of your returns would have to be a huge proportion of your annual returns. In fact, to equal the fees they charge as “just a few percent” against your total asset portfolio, they would have to extract in the range of 1/3 to 2/3 of your annual portfolio returns every year. Moreover, if you did not have a return in a particular year, then the industry would not get paid – just like you did not get paid by the markets!Of course, you do not have to worry about paying a percentage of your returns, because the Investment Advisers Act of 1940 specifically prohibits taking a percent of a client’s returns, unless the client meets certain qualifications, that is, the client is a qualified investor who is already relatively wealthy and supposedly more sophisticated. Instead, the Investment Advisers Act of 1940 allows only for charging some percentage of assets each year for investment management services. On its surface, this might at first seem like consumer protection, because investment managers cannot directly take away the investment returns of naïve investors. The direct investment asset management fees of advisors typically are in the .75% to 1.5% (or higher) range, but these are not the only fees that individual investors pay. When individual investors pay asset management fees, they expect that the advisor will actually earn their fees by delivering better performance than they could have with a passive, very low cost index fund investment strategy that targeted a market return. (See: [Can you really beat the securities markets?](#) and [Chance creates the illusion that individual investors can beat the stock market](#))Therefore, advisors to retail investors rarely suggest adopting a low cost passive index fund strategy. Instead, they put their clients into actively managed mutual funds with much higher fund management expenses and higher, more costly investment turnover. Alternatively, they might frequently buy and sell ETFs and incur substantial transactions fees. Furthermore, many investors will pay additional investment sales loads for the privilege of riding this costly investment merry-go-round.The total fees extracted through percent of assets fees and sales loads is huge. In total, the average investor ends up paying between 2% and 3% of their portfolio assets every year, and many pay even higher percentages. The average investor paying these fees is likely to end up with less than they would have had, if they had adopted a very low cost index fund investment strategy. Starting today, you should focus on correcting any cost-inefficiencies associated with your current and future investment cost practices. You can only do something about investment costs going forward. Stop giving your assets away

through excessive and unwarranted recurring investment fees and sales loads. (See: [Pay less to get more](#))

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