

[The Biggest Personal Finance Story of the Past 30 Years \(Part 4\)](#)

Category : Are Your Best Interests the Same as the Financial Services Industry?

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(For a graph of the relative percentage shares of various sectors within the S&P500 index over five decades, see Figure 4 on page 16 of the financial study by Jeremy Siegel and Jeremy Schwartz entitled: "[The Long-term Returns on the Original S&P 500 Firms.](#)") The answer is relatively simple. The securities markets tell you that financial stocks are highly profitable and have earnings that are expected to continue to do so in the future. The markets are telling you that it is unlikely that any business or regulatory factors will intervene to reduce financial services company revenue growth and/or to shrink their profit margins. (See these related articles on *The Skilled Investor* website: [Securities Valuation](#) and [Returns and Risk Premiums](#))If you had investment assets decades ago and you bought and held on to financial stocks, you have done very well for yourself. If you now have personal assets invested in the equities markets and you hold very broad based index funds and ETFs based on the S&P500 or any other large capitalization U.S. index, you are now relying on the financial services sector for one fifth of the value of your U.S. equity portfolio. If you are an individual investor who has committed to the "lowest cost financial products" religion, and if you hold broad market mutual funds and ETFs in the equity portion of your personal portfolio, then you could be a true beneficiary of the increasing market capitalization of the financial sector. However, if you are the average investor, you are not likely to have the lowest cost financial products religion. This is because the only way that the value of the financial services sector could keep rising is for most people to be inefficient consumers of financial products who keep paying far too much for the value that they receive. In the securities sector of the financial services industry, the average investor pays roughly 2 to 3% of their ASSETS (NOT RETURNS) to the securities industry each and every year for visible and hidden costs. Some pay much more, since some other investors are trying to drive their annual costs toward zero. While this may not seem like much since costs are stated in percentage terms, average investment fees actually eat up about 1/3 to 1/2 of real dollar investment returns each and every year. This is the real scandal for individual investors and part of the reason for the growth of financial services in the S&P500 index. (See these related articles on *The Skilled Investor* website: [Controlling Investment Costs](#))Now, the highly profitable securities sector is only a portion of the overall financial industry. The financial industry also includes insurance companies, credit card companies, consumer finance companies, retail banks and savings and loan companies, trust companies, mortgage companies. The list goes on and on. Without analyzing the costs to consumers of these other financial sectors, I will simply ask: when is the last time that you thought you got a real bargain for insurance, banking services, credit cards, mortgages, auto loans, or any other financial product or service that you buy? The answer for most people is never. The best you can do is to bargain for a "reasonable" deal and/or shop around to understand your options and buy what you want from a lower cost vendor. However, most people either do not have the willingness, time, knowledge, or ability to shop around. In fact, when they do shop around, most often, they do not understand what their selection criteria should be. With securities, most people think they can beat the market and never think long enough to realize that:

a) every investor is competing in a zero-sum auction market in the short-term, and b) only by having

their assets at risk over the long-term, can they hope to earn risk premiums. (See these related articles on *The Skilled Investor* website: [Selecting Investment Funds](#)) It turns out that people's instincts about what to do with their finances often run contrary to scientifically based practices. The industry knows this and rarely hesitates to manipulate people's misconceptions. (See this article on *The Skilled Investor* Blog: [How to lie with statistics: Investment performance charts — A Tip from The Skilled Investor](#))In aggregate, most people pay far more for financial services than they have to, and these over payments have shown up in escalating financial sector equity market values over the last several decades. From the standpoint of your own personal finances, you will never benefit from this upward trend, unless you become a more sophisticated and highly price conscious consumer of financial products and services. If you keep paying average or high financial industry costs, overall you will be a net loser. If you have invested equity assets, but you keep paying average or high financial costs, then your ownership of financial securities will only provides a small rebate of the excessive costs that you keep paying. On the other hand, those who have gotten the "only low cost financial products" religion will be happy that you keep on over-paying. The financial sector equity investment assets of low-cost financial consumers can only keep appreciating, if you keep paying too much.How high can the value of the financial services sector go as a percentage of the S&P 500? I have no idea. It seems to *The Skilled Investor* that things are already way out of whack. It seems like the percentage should go down rather than up. However, these are the wages of human greed and lack of scientifically based financial knowledge. If you want to become a more educated consumer of financial services, I encourage to read other articles on *The Skilled Investor* website and to become one of the people who puts downward pressure on the financial sector's equity values -- rather than pumping them up any higher!

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