The most effective strategy to increase your mutual fund and ETF investment returns

Category : Selecting Diversified Investment Funds -- Mutual Funds and ETFs

Published by The Skilled Investor on Dec/10/2007

The most effective strategy to increase your mutual fund and ETF investment returnsWhat is the most effective strategy you have to increase your long-term mutual fund and ETF investment returns? Just reduce your investment fees to rock bottom and buy directly to eliminate all sales loads. This strategy is both simple and entirely within your control. You do not have to be smarter than all those other smart investors out there. You do not have to take on the Herculean and very time consuming task of trying to "beat the market." With this smart, low cost investment strategy, you only have to be a better bargain shopper, when you buy your investments.Over a 30-year retirement investment accumulation period, a $10,000 investment -- reduced by a 5.75% initial sales load charge to pay a financial advisor -- could grow to $40,734. This result assumes that your investment earns a 5% annual real dollar return after inflation and investment costs, and it ignores any capital gains taxes. In contrast, if you instead buy no load mutual funds directly, you can cut out the initial sales load charge entirely and put your full investment capital to work for you from the outset. In addition, if you also pay annual investment fees that are one percentage point lower, you could end up with $16,701 more! This means that your $10,000 initial investment would be worth 41% MORE after 30 years, when compared to the $40,734 retirement portfolio that you would get using higher cost mutual funds with sales loads! *The Skilled Investor* has published numerous articles on the importance of investment cost control to investors. To learn more, click this link to find the following article and use the links at the bottom to find more investment cost articles: "Excessive investment costs are a huge problem for individual investors." Financial industry advisor sales people and investment counselors will imply that they can find "better" mutual funds and ETFs for you. Really?? To avoid exposing themselves to some very significant legal liabilities, most investment counselors will not tell you directly that you will get "better returns," if you pay sales loads and higher fees. However, most advisors know that they can still make the sale and do not have to make such a direct and likely false statement. Instead, they will just selectively sell to you only those supposedly "good, seasoned" funds that have historically done better than average.Financial advisors don't have to predict that you will get better returns, because they know that most individual investors will make the needed false assumptions all by themselves. There is no evidence that historically better performing funds will keep doing better than average in the future. But, that is what most investors naively believe. Historical performance charts grease the sale. See this article: "How to lie with statistics: Investment performance charts."When advisors tell you they can find "better" mutual funds and ETFs for you -- if you are only willing to pay more for the privilege -- YOUR financial interests are NOT what they have in mind. What they are telling you is absolute and utter self-interested rubbish. This rubbish is designed to put more of your money in their pockets, while they meet their financial company's sales and profit targets and undercut your long-term financial goals. On average, paying sales loads and higher management fees will not get you higher returns. Scientific financial research has repeatedly shown that the opposite is true. Simply put, when you pay more in fees, you are far more likely to end up with less! For more in this important subject, see this article: "Pay less to get more."*The Skilled Investor's* Mutual Fund and ETF Fund Authority Scores help you to sort diversified investment funds quickly for lower costs. Using an integer scale ranging from -10 to +10, Fund Authority Scores for equity investment funds measure five factors:

1) annualized management and investment sales expenses (40% weighting),
2) annual trading costs implied by investment fund portfolio turnover (30% weighting),
3) inferior and superior historical performance (20% weighting),
4) minimum fund maturity (5% weighting), and
5) minimum fund size for operating efficiency (5% weighting).

Fund Authority Scores rate mutual funds and exchange traded funds (ETFs) on the most important economic factors that influence individual investors' net long term diversified investment fund performance. *The Skilled Investor* developed the Fund Authority Score system to provide individual investors with concise, objective, and realistic summaries of mutual funds and ETFs for quick comparisons within investment asset classes.For a directory of the Fund Authority Score reports of mutual funds and ETFs, go here. When you go to this Fund Authority Score directory, you can conveniently find a full list of all Fund Authority Score reports at the bottom of each article for that particular investment asset class. For more information about how a Fund Authority Score is developed for each mutual fund or ETF, go here.