

Big Brokers Don't Like Index Funds - Transcript

Tom: In episode 161 we're going to talk about index funds and why you may not own them. Stick around.

Welcome to the Mullooly Asset Show I'm your host, Tom Mullooly, and this is episode number 161. I have a question for you. Do you own an index fund if you have an account at Merrill Lynch or Morgan Stanley or UBS or Wells Fargo?

The odds are you probably don't. It's no secret that over the last 10 or 15 years, investors have been flocking to lower cost index funds. That is, except if you're dealing with a broker at one of those four firms.

There was a story in the Wall Street Journal this morning, the report put out by Cerulli Associates shows that brokers at the four major Wall Street firms that I've just mentioned a moment ago, have just 29% of client assets in index funds. And the gap is even greater if you're not working at one of those four firms, but you're still working with a broker at a smaller firm. At smaller firms, roughly 22% of client money is in index funds.

It's just another reason, another example of why we spend so much time talking about the fiduciary duty of an advisor, that's really important. So I'm just going to put performance aside. I think a lot of people are familiar that index funds are hard to beat year in and year out consistently. So just talking about passive versus active funds. A passive fund, an example of that would be an index fund where there isn't a lot of change happening.

An active fund is where you have a manager who's trying to beat an index. Active fund investors typically pay four and a half times in fees what passive investors pay. And that's not something I made up. That's Morningstar who came up with that information. And by the way, if your broker is pitching alternative investments funds or these alt funds, just understand the fees on alternative funds are often more than double the fees that you're going to find in the average active fund. So they really got to knock the ball out of the park, they really have to outperform.

So what's some examples of alternative funds? Well, where they talk about private equity or venture capital or real assets, meaning like real estate deals, not a real estate investment trust, oil, commodity investment, gold, hedge funds, funds of funds, and some of these market neutral funds are considered alternative investments.

So look, I'm not saying that working with a broker is wrong. I was a broker for a very long period of time. But to swipe a line from Seinfeld, not that there's anything wrong with that, you just ought to know all the details before proceeding. It's a really big deal knowing what you're going to pay, going into working with an advisor or with a broker. Again, not that there's anything wrong with that.

So thanks for tuning into episode 161 and we will catch up with you in the next episode.