Everybody Pays Something to Invest - Transcript

Tom M.: Hey, in episode 171 we talk about investment fees, not the sexiest topic, but stick around. I think you're going to get a lot out of this.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, episode number 171. Thanks for tuning in. We want to talk about investment fees for a bit here. There was a study released by the FINRA Investor Education Foundation and it led to some very interesting information. 14% of the folks who responded to a recent survey said that they don't think they pay any fee or expenses for investing. Another 17% acknowledged that they just don't know what they're paying for their investments. Didn't matter if they were working with an advisor or doing it on their own, they just didn't know. That's one third practically of all people who responded to this survey.

Now, specifically among people who said they owned mutual funds, 32%, that's just about one third, believed they don't pay fees or expenses. I can tell you nothing can be further from the truth. The survey had 2000 responses. All the people who took this survey hold investments outside their retirement accounts. This isn't someone who just has a 401k.

Interesting little tidbit. Individual stocks are still the most popular way for folks who have less than $50,000 to invest. Now, think about that for a second. You've got less than $50,000. Say you've got $25 or $30,000, you own two or three stocks. If we sat down together and we looked at this, we would infer that this is really gambling. You're taking a lot of risk with the money that you have and you're basically betting it all on two or three companies. When we invest in a portfolio, we'll use exchange traded funds. Exchange traded funds, ETFs will hold 300, 500, sometimes 700 different companies. You're getting a lot of diversification, but this whole idea of watching these survey results tell us that there's still a lot of folks there who just simply don't understand how their investments actually work.

There's a lot of people that invest with Fidelity, T. Rowe Price, Vanguard. We do too. All right. We really think they have terrific products. They have great products, but these companies don't work for free. Just think about TV commercials that they produce. They all cost money and take it from us. TV commercials are not cheap. T. Rowe Price, I'm not picking on them. Blue Chip Growth Fund, excellent fund. No load, so people think it's no cost. They're mistaken. You're paying 0.7 of 1% or in our jargon it's 70 basis points per year on this.

Now if you're making 9%, 10%, 12%, whatever this year, people don't really watch what the expenses are. 70.7 of 1%, but in a year where you lose 6% or 8%, adding another 1% in expenses on top of that really starts to add up. Their dividend growth fund, 64 basis points. That's two thirds of 1%. Fidelity international growth fund, it's almost 1%. It's 0.94 or 94 basis points. These things are not free. Doesn't make them bad investments. These companies like Vanguard and T. Rowe Price and Fidelity, they do big business, but it's not free. Just understand, basically understanding how you pay along the way will help advance your investor education. We think that's so important.

As we saw with the survey results, there's a lot of people out there that just they don't get it. They just don't understand and they just think that things are free. It's not, sorry. No free lunch. Thanks for watching episode number 171 and we'll see you on the next one.