How Much Are YOU Paying In Fees? - Transcript

Tom Mullooly: In episode 84, we're going to break down the math behind your investments.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 84.

We get these questions all the time that come in from our clients and our viewers. If you've got a topic that you want us to talk about, get in touch with us. We'd be happy to answers the questions that you have and, if it's something that we think has broad appeal, you may see it on an upcoming video.

Okay, Tim, what are we going to be talking about today?

Tim: How much am I really paying in fees for my investments?

Tom Mullooly: We recently transferred in an account from another advisory firm. I won't name them, but they use a stage coach as their logo. Anyway, without getting into too many specifics, the account was roughly $600,000. The client was paying advisory fees of 1.56%. That's more than one and a half percent per year. That's $9,300 in advisory fees.

On top of that, $600,000 account had 24 different mutual funds. We feel that that's a lot no matter how you slice it, but these 24 funds had a weighted average expense ratio of 98 basis points or, said another way, .98 or, said another way, about 1% in management expenses.

Now, understand, if you own a mutual fund or an exchange-traded fund or even a unit trust, there are expenses everywhere, but you've got to be smart about where these expenses pop up and how often they pop up.

As a fiduciary, it's in your best interest and our best interest to always be focusing the cost and trying to keep your cost as low as possible, so, in this case, we took over this account where the client was paying a little over one and a half percent and paying management expenses for the funds in the portfolio of about 1%, so they're paying about 15 grand a year in expenses, or about two and a half percent.

Now, it's really hard to make money in a flat year or, definitely, in a down year if the first two and a half percent go out the door in fees or, said another way, the first $15,000 that you make also goes out the door in fees. It's just really steep.

You're stacking the odds against yourself by getting into these situations where you're paying high fees, so, in a year like 2017 where a lot of growth oriented, stock market related investments went up, it's easy to kind of get lost in those. All those expenses get lost in the sauce.

That's where a lot of advisors get a little lazy. They get a little sloppy because what happens, as Warren Buffett likes to say, when the tide goes out, you find out who's naked, who's swimming without a bathing suit, so when you have these years where the markets are flat or the markets go down, these expenses will really expose themselves, so you have to really be careful about how much things cost.

I'm reminded of a saying that I learned early on in my career. Don't confuse brilliance with a bull market. Just because your investments are going up, it doesn't make you very smart. It may just be because the tide is rising.

Now, at Mullooly Asset Management, we use a lot of exchange-traded funds. We used to use a lot of mutual funds. Earlier in my career, I did, but we tend to look for exchange-traded funds that can do the same things as mutual funds, but do it a lot more efficiently.

We really like these exchange-traded funds because they're very tax efficient. In most cases, you bought it at one price, you sell it at another price, and that's the long and short of it. You don't have these annual distributions.

Also, ETFs are liquid. We can sell them throughout the day. Unlike a mutual fund where you're just going to get whatever the closing price is that day, with an exchange-traded fund, we can take action during the trading day.

That's good, and speaking of the trading day, most of these exchange-traded funds can be bought and sold with very little commission. It trades like a stock, and in some cases, you may find exchange-traded funds with no commission.

We can probably do another video on the cost structure of ETFs, but, suffice it to say, many index ETFs, their expenses are a fraction, where you may buy a mutual fund that's paying ... It's got a management expense of 1%. You may be able to find the exact same fund with the exact same manager as an exchange-traded fund where they're paying 25, 30, 35 basis points.

There's a lot of opportunity out there to keep your cost low and to be smart about how much you're paying in fees and how much is going out the door in expenses. Like I said before, in a year where the market goes up like in 2017, it's easy to get lazy and just kind of let these things go by the wayside, but, in other years, not so much.

A good lesson and a great question that we picked up for this episode number 84. Thanks for watching, and we'll see you on the next one.