

WARNING: Why Your Mutual Funds Could Literally Cost You \$314,378 or More in Retirement, and How You Can Avoid It!

Dear Friend,

Have you ever wondered what your mutual fund companies are REALLY making off you? Well, congratulations! By requesting this powerful report, you are about to learn! So lock yourself in a room and hold all your calls for the next 15 minutes, so you can learn how to save yourself thousands or even millions of dollars. During your quick read, we'll reveal:

- How your mutual fund companies are just like bookies
- How much your mutual fund fees are REALLY costing you
- Why you don't know all about your mutual fund fees already
- How to boost your retirement savings, risk-free, by 20 to 50%
- Why some Wall Street experts say the mutual fund industry should not even EXIST!
- Exactly how financial companies sucked over \$350 billion out of our investment accounts in 2004 alone!
- How your mutual fund fees alone could reduce your nestegg by as much as 53%!

So let's get into it! Let's expose why your mutual funds could cost you \$314,378 or more and how you can avoid it!

First of All, Recent Proven Research Has Revealed That Your Mutual Fund Fees are Higher Than You Could Have *Ever* Imagined

This may be the biggest secret your mutual fund companies don't want you to know. When the stock market was roaring in the 90's, mutual fund companies were able to continue raising fees on us, and no one called them on it.

Finally, in just the last couple years, the ugly secrets are being revealed. Former Undersecretary of the US Treasury, Gary Gensler and Former Assistant Secretary for Financial Institutions at the US Treasury, Gregory Baer wrote in their book The Great Mutual Fund Trap:

“There's a reason you don't consider the costs of investing, of course. Mutual funds and brokers have constructed a system where the costs are practically invisible.”

Good news! Your mutual fund companies have worked hard to make all of these fees invisible; now, we're going to show them to you so they'll be clear as day.

Here's another take on the industry's fees. Burton Malkiel, the award winning author of the acclaimed book, A Random Walk Down Wall Street, said:

“The mutual fund industry has developed a system of charging expenses to investors that is as complicated as IRS income tax regulations and equally unpleasant.”

Well, considering the IRS income tax regulations are now actually longer than the Holy Bible itself, that's quite a statement! Do you remember near the end of the Wizard of Oz when Dorothy and her friends were frightened of the all-powerful Oz? Do you remember Toto pulling back the curtain to expose the fact that the terrifying, all-powerful Oz was no more than a regular man with a big, fancy machine?

Well, this report is just like Toto! But instead of revealing a man behind the curtain, we're going to reveal ALL of the costs of mutual funds, an industry that John Bogle, Founder and Former Chairman of the Vanguard Group said:

“Changes in the last 60 years have, in the aggregate, benefited mutual fund managers to the direct and commensurate detriment of mutual fund investors.”

Here are just a few of the costs that are probably attacking your retirement:

Mutual Fund Cost #1: Management Fees

The average stock mutual fund charges 1.56% every year in management fees.

Sources: Morningstar, The Great Mutual Fund Trap, The Trouble with Mutual Funds

Mutual Fund Cost #2: Transaction Costs

These are the costs an actively managed fund pays out in normal brokerage costs and what are called spreads each year. For a typical fund, this is anywhere from 0.5% to 2% every year.

Source: The Great Mutual Fund Trap, The Trouble with Mutual Funds, Zero Alpha Group 2004 Study

Mutual Fund Cost #3: Completely Undisclosed Internal Fund Costs

These costs all hit the investor right where it hurts: in the pocketbook; but you won't find a description of them in any prospectus:

- Soft Dollar Payments – These are payments that brokerage firms make to pay for some of the mutual fund's expenses. In return for these payments the mutual fund directs trades to the brokerage firm and pays a higher than normal commission. This is a higher cost passed down to the investor. These fees can add an estimated 0.1% to 0.4% per year in cost.

Source: 2004 Investigations by New York Attorney General Elliot Spitzer

- Shelf Space Payments – These are fees paid by funds to be included in mutual fund programs offered by all major firms such as Schwab, Fidelity, Waterhouse, etc. These fees typically range from 0.2% to 0.5% per year.
- Directed Brokerage – This is when a brokerage firm agrees to sell a specific fund in exchange for business directed to them by the fund company. These fees add an estimated 0.1% to 0.4% per year to the investor's costs.

Source: 2004 Investigations by New York Attorney General Elliot Spitzer

So, what are the combined effects of all these costs?

Current research shows that including ALL expenses, the average stock mutual fund costs you 3.1% EVERY YEAR!

Sure, that's a lot, but I'm positive you'll be shocked when you see how devastating these costs REALLY are to your retirement!

In fact, many investment insiders have even wondered why mutual funds exist! This is from Smart Money columnist James Stewart in March of 2004:

According to the logic of capitalism, **the mutual fund industry as presently constituted should not exist. For as a whole, the industry is of no benefit to its customers.** Year after year most funds fall short of the market indexes – they add no value at all...And the industry seems woefully uninterested in its customers' welfare. Spitzer's market-timing probe, which uncovered a slew of fund executives cheating their own investors, proved this in spades...Finally, the percentage of the pie

that is captured in fees has been rising without any discernible improvement in results. Stock funds now charge an average of about 1.5 percent of assets...The industry's shortcomings may thus be summarized as follows: **“Many mutual funds are amoral, and as a group they overcharge for adding no value.”** A wag (A sarcastic observer) would inquire: **What *should* they charge for providing no value?**

To show you exactly how devastating mutual fund costs are to your retirement, we'll show you a typical example.

Let's use John, who's 58 years old. John has \$100,000 in stock mutual funds. For simplicity, we're going to assume that John isn't going to spend any of the money in his mutual funds over the next 20 years. Furthermore, we'll assume a typical 20 years of stock market returns: an average of 10% per year; but don't forget: that's BEFORE fees. After ALL the costs are removed from his typical mutual fund, we're assuming a return of only 6.9% per year.

The results are almost unbelievable. Take, for example, if John had been able to earn the average stock market return over those 20 years without any fees. If he had, his \$100,000 would have grown to \$672,746. Not bad, right? Let's see what happens after the cost of mutual funds reduces his account balance.

The total cost of the mutual fund over the 20 years is \$133,689. This is the money that goes into the pockets of the mutual fund company and the brokerage firm that does the trading for the mutual fund company. Quite a lot of money to be sure. However, it's shockingly only a small part of the story.

See, you may have heard that Albert Einstein famously said that the most powerful force in the universe is compound interest! While compound interest is indeed very powerful, unfortunately, the compounding of fees can be just as powerful, to the devastation of your retirement!

You see, without fees, John would have \$672,746 after 20 years. During those 20 years, he pays a total of \$133,689 in fees and expenses. But during the 20 years, the amount John loses because of compounding is \$180,689! So, after 20 years, John is left with only \$358,368!

Let's make sure this shocking truth makes sense:

Without fees, John would have \$672,746.
Because of the cost of mutual funds, John only has \$358,368.
The mutual funds cost John \$314,378!

John Bogle, founder of Vanguard, possibly the most respected voice in personal investing over the past 50 years, calls this loss:

“A yawning chasm of almost mind-numbing proportions!”

In a speech at the World Money Show on February 2nd, 2005, Mr. Bogle made this shocking point:

“So, here’s the situation: you, the investor, put up 100% of the capital and assumed 100% of the risk, but collected only 53% of the profit. The mutual fund management and distribution system put up 0% of the capital and assumed 0% of the risk, but collected 47% of the return. Almost half of the profit was siphoned away by those who had everything to gain, and nothing to lose.”

So, why do we allow this to happen! Easy: Virtually every voice yelling at us from the personal investing world assures us that the managers of mutual funds are the best place to invest our money; but the numbers have proven time and again that this is unfortunately true.

So what do we do? As we see it, there are a few very attractive options.

The one common feature of each of these options is that they may be able to save you hundreds of thousands or even millions of dollars during your retirement!

Potential Solution #1: A No Load Index Fund or ETF

We lump these 2 solutions together because they are very similar and tend to use the same philosophy: Eliminate as many fees as possible by indexing to a stock market index instead of attempting to manage, buy, sell, and time individual stock transactions. This is the simplest way to avoid these devastating fees. How to use them differs for each individual investor. Some questions you MUST ask yourself include:

- How soon will I need to start using this money?
- Will I retiring soon, or do I have a longer time frame before retirement? (10 or more years)
- Do I want to invest internationally?
- Do I want to invest primarily in very large companies, or invest in a mix of different sized companies?
- As I get very close to and into retirement, how do I balance between stock market investments and safe, guaranteed accounts?

Potential Solution #2: Formulaic Investing

Formulaic investing simply means using a proven investment formula to determine what stocks to own and for how long. The nice thing about a formula is that no matter who applies the formula, the result is always the same.

Take a math formula for example. You apply the math formula of $2+2$ and you get 4. If I apply the formula, I get the same result. Investing formulas are no different. No matter who applies the formula, the result is always the same.

For example, you may have heard of the 80/20 before. Simply put, for many areas in life, 80% of the benefit or results comes from 20% of the work. It is said that 80% of the tax revenue in the United States comes from 20% of the people.

This is true for the stock market as well: 80% of the growth in any index can be attributed to 20% of the stocks. If that's the case, wouldn't it make sense to try to buy only the 20% that will likely get results? This is what formulaic investing attempts to do.

One of the great features of formulaic investing is that it eliminates some of the management fees of mutual funds and virtually all of the transaction costs.

Once again, this can often work many different ways for many different investors. In order to apply this to your personal investing situation, you'd have to ask yourself the same questions we referred to under solution number 1.

Potential Solution #3: Guaranteed Indexed Accounts

While a few different kinds of these accounts exist, they all have the same basic principle behind them: Allow your returns to be tied to the horsepower of the stock market, but guarantee your investment into the account.

Some investments attempt to accomplish this by adding layers of cost onto your investment (variable annuities come to mind). These accounts, however, can often actually reduce your investment fees.

These lower fee solutions can be applied in many different ways to each individual's own financial situation. Due to the complexity of them, it's extremely difficult to explain each application of this strategy here in print.

While one client may be able to benefit from this strategy by using it one way, another client may be able to benefit from a different application of the same strategy.

This strategy is mentioned at my upcoming seminar. In addition, we will be discussing in detail the numerous fees associated with mutual funds, and how you can reduce or avoid them. More information about my seminar is attached.