



More Mutual Fund Investors Minimize Their Fees In 2015 **As Investors Move Toward Reduced Fee Mutual Funds, Money Managers** **Benefit from Economies of Scale... but Investors Beware: High Fees in** **Mutual Funds Have Not Gone Away**



Morningstar's 2015 analysis of Mutual Funds shows an overall reduction in fees, but this is due to increasing investments in low cost mutual funds rather than managers decreasing the hidden fees that have whittled away at investor earnings in the past. Reductions are due to smarter shopping as investors continue their 10 year trend of opting for lower fee indexed funds. When it comes to fees, Mutual Fund investors must continue to scour disclosures and add up all of the hidden fees that degrade their earnings over time. Many investors who include Mutual Funds in their portfolio

are moving to reduced index funds – which in addition to the lower fees tend to outperform higher-cost actively managed funds.^{1,2}

Economies of scale have also driven down fixed costs for companies that offer mutual funds and exchange-traded funds. Fund managers bank an ever-increasing amount of fees as their assets under management grow, and since management costs for index funds in particular are fairly static, profit margins are on the rise for many fund managers. In fact, publicly traded asset management companies like Blackrock have outperformed their own stock portfolios in recent years.¹

Actively managed mutual funds will generally have a higher level of fees and expenses to consider. In addition to the reduced earnings from fees and expenses, actively managed funds have a host of other factors, such as over-diversification, cash on hand requirements, taxes, and phantom income that can contribute to a lower than expected performance compared to investing in passive indexes. Transaction costs are often difficult to determine for actively managed funds, which can include broker commissions, bid-ask spreads, and losses associated with trading in high volumes. ^{3,4}

How Do Mutual Funds Compare to Your Other Investment Options? Identifying all of the fees and subtracting them from average earnings will allow you to compare earnings estimates across investment options. However, Mutual Funds are securities, and as such their performance is tied to the Market. They do not offer the same tax advantages and income guarantees provided by insurance products such as Fixed Indexed Annuities, so make sure that you compare risk as well as reward. Mutual Funds may seem easier for investors who lack the time, resources, or expertise to pick individual stocks, but considering the research one must perform to identify all potential fees, fund selection can still require considerable effort. Investors who consider Mutual Funds need to make sure that a fund's projections include all the hidden fees and realize that even the diversified nature of Mutual Funds cannot protect your investment from the volatility of the market itself.

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Citations.

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