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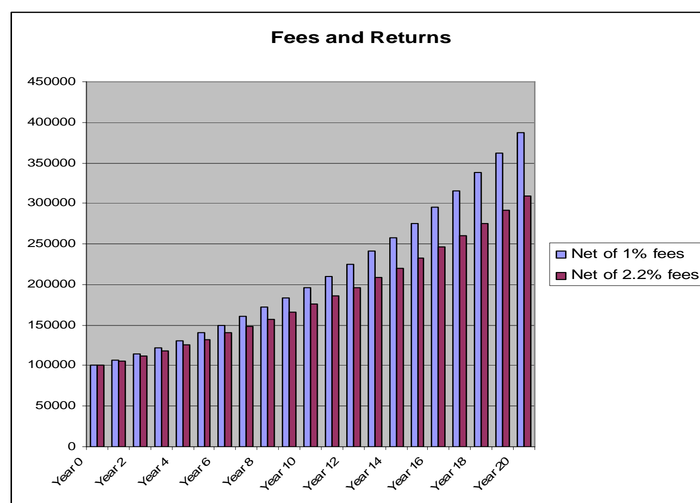
Everyone knows the stock market pros make a few dollars for themselves. In fact, many people are in "no load" mutual funds in part to keep costs down. There are three key things to know about how fees work.

1) Nothing is free in investing.
2) The financial worlds' fees vary.
3) Small differences mean a lot.

Most people know investing isn't free. When any investment makes claims on this front, investigate. Take no-load mutual funds. A big improvement on funds that carry loads (fees) upfront, "no load" funds still have plenty of fees and other costs associated with them.

An actively managed fund might charge a management fee of 1%. Fair enough. But there sometimes also are fees to help a fund grow called "12b-1 fees." There might be redemption fees if you need to move cash out of the fund quickly (such as a 1.5% fee on the Fidelity Japan fund). Fees can add up: The Global Value A fund at BlackRock (where the Merrill Lynch funds ended up) starts off with an upfront fee of 5.25%, adds a 2% fee if anyone pulls money out in 30 days or less, has a 12b-1 fee of 0.25% and an overall annual expense rate of 1.62%, according to mutual fund tracking service Morningstar.

Funds also need to pay commissions on trades. What's more, any large fund will have an impact on the price of securities it trades: When it buys a million shares of XYZ Corp., the demand often nudges the price up. The reverse holds true when it sells. Plus, there's a little difference in the price for buyers and sellers, called "bid/ask" spread. According to William Bernstein in his excellent book "The Four Pillars of Investing," average costs associated with a no-load mutual fund trading big U.S. stocks add up to 2.2% a year. The overseas figure for small company funds can add up to more than 4% a year.



In the above chart, you can see that if you can shave costs by 1.2 percentage points a year, you'll have 25% more money after 20 years (or 12% more after 10 years).

There are many good reasons to consider using exchange-trades funds (ETFs) that track major indexes as a core part of your portfolio. One of the best is that they are a very low cost way to keep your money at work. Annual fees for major index ETFs run from 0.09% for an S&P 500 ETF to 0.74% for an emerging markets index ETF. Even after you combine those with fees paid to an advisor, you generally come out at a lower set of overall fees than if you try to run money on your own in no-load mutual funds. And you'll get expert, personalized advice on your investments (and possibly on your spending and savings habits as well)!

Tom Barrett ***Jay McCormick***