Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

The P&A Blog

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Why investment fees matter

Do you know the amount of your monthly cable bill? How about the price of your cell phone plan? Now, the million-dollar question: how much are your investments costing you? Chances are, you can ballpark the first two, but the third is a mystery. There's a reason for that. The financial services industry can make a lot more money if you don't know how much you're paying them. *Caveat emptor*. Today, we'll look at the huge impact investment fees can have on a portfolio over the long-term.

Fees in our industry range from reasonable to outrageous. Recently, we reviewed several portfolios where the all-in annual costs exceeded 3%. That makes it very difficult for the client to come out ahead. Next to investor behavior, the fees and expenses charged to an account will have the greatest impact on performance and the actual return (net of fees) an investor earns.

To make this point, let's compare two $1,000,000 stock portfolios earning 8% annualized returns (before fees) over 30 years. The only difference between the two of them is the fees these portfolios pay.

<u>**Portfolio #1**</u>

- 8% annual return before fees
  - Annual management fee charged by advisor = **0.75%**
  - Annual fees charged by investments + trading costs = **0.25%**
  - Total annual expenses = **1%**
- 7% return net of fees

<u>**Portfolio #2**</u>

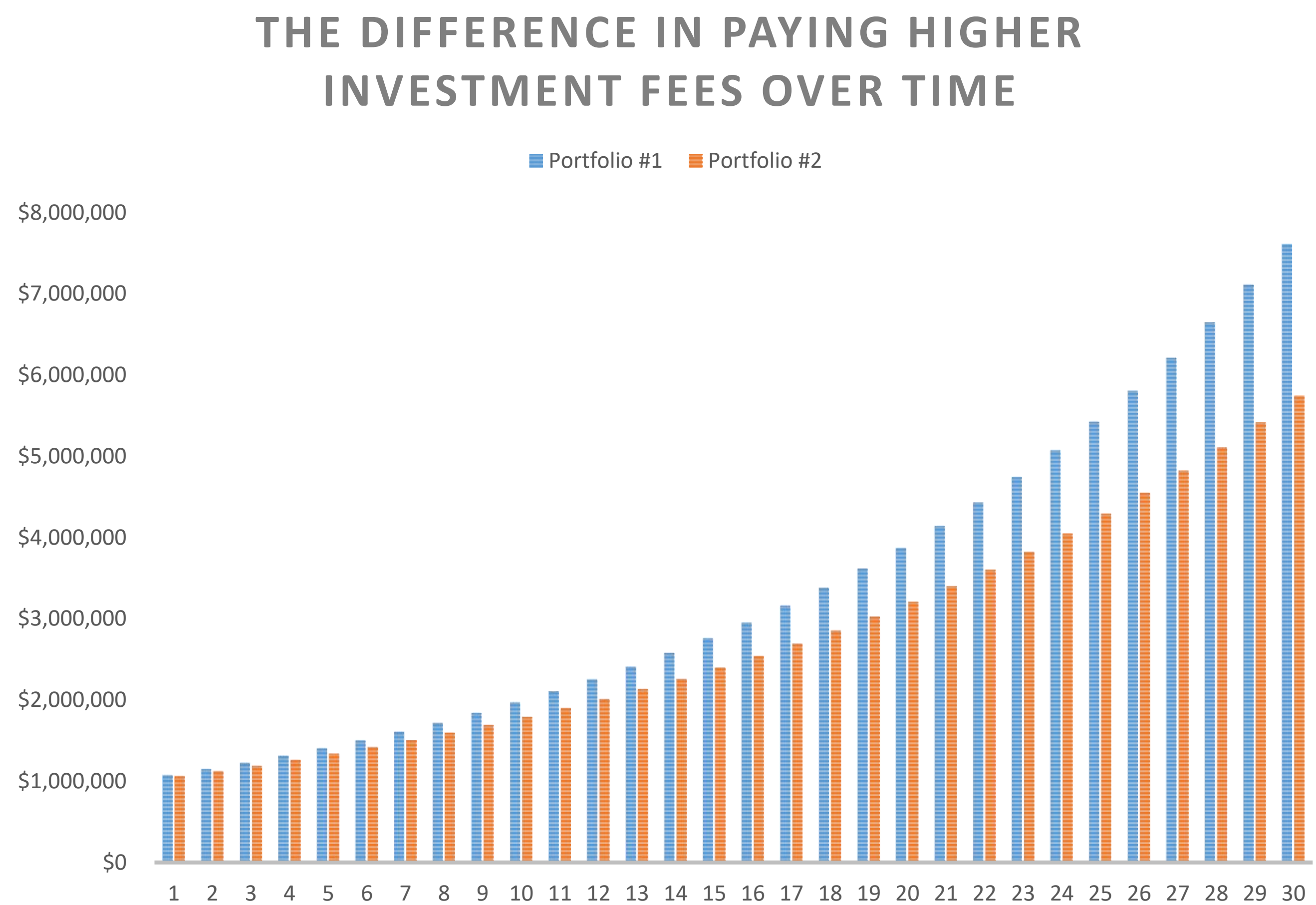
- 8% annual return before fees
  - Annual management fee charged by advisor = **1.25%**
  - Annual fees charged by investments + trading costs = **0.75%**
  - Total annual expenses = **2%**
- 6% return net of fees

After 10 years, Portfolio #1 is worth **$176,303** more than Portfolio #2. That's quite a difference.

After 20 years, Portfolio #1 is worth **$662,549** more than Portfolio #2. Whoa! That buys a nice house.

After 30 years, Portfolio #1 is worth (wait for it) **$1,868,764** more than Portfolio #2.

The difference in paying 1% more in annual fees over 30 years is near twice as much as your starting portfolio amount! That is the power of compound interest working against you.



Pittenger & Anderson charges 0.75% for retirement accounts and mutual fund/ETF accounts and 1% for individual stock and bond accounts. **View our fee schedule here**. We aren't paid by selling you products. Our only compensation is the management fee you pay us, so it is in our interests (and yours) to minimize your investment expenses. Doing so results in shared success.

If you would like to know how much your investments are costing you, **please connect with us**.

Disclaimer: Past performance does not guarantee future results. Over the last 50 years (through 2017), the average annual return of the S&P 500 was 10.12% annually. Markets will fluctuate. The 8% average annual straight-line return is for illustration purposes only and meant to show the long-term impact of paying higher investment fees.

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