

Understanding Investment Fees



City and County of Broomfield





Agenda

- Mutual Funds
 - Fees for buying, selling, and keeping mutual funds
- Stocks
 - Fees for buying, selling, and keeping stocks
- Investment Advice
 - Different ways of paying for help with your investments
- Retirement Plan Costs
- Getting Help



Mutual Fund Costs



Mutual Fund Fees

Front End Load:

A commission or sales charge applied at the time of the initial purchase for an investment, usually mutual funds and insurance policies. It is deducted from the investment amount and, as a result, it lowers the size of the investment.

- Generally the loads run between 3% and 8.5%. Usually around 5%-6%
- Funds sold with a front end load are called A shares. For example, American Funds Growth Fund of America A fund has a 5.75% front end load.

Example: Jeff invests \$2,500 in a mutual fund with a 5% front end load.

- Jeff actually invests \$2,375 in the mutual fund and \$125 is paid to his adviser as a commission.
- Jeff's mutual fund must earn 5% to get back to his original \$2,500 investment.
- If Jeff decides to sell his mutual fund, there will be no fee to sell.



Mutual Fund Fees

Back End Load

A fee (sales charge or load) that investors pay when selling mutual fund shares within a specified number of years, usually five to 10 years.

- The fee is a percentage of the value of the share being sold. The fee percentage is highest in the first year and decreases yearly until the specified holding period ends, at which time it drops to zero.
- Also known as a "contingent deferred sales charge or load."
- Funds with a back end load are labeled B shares. For example, the Prudential CA Municipal Income B fund has a deferred sales charge of 5%.



Example: Judy invests \$5,000 in a mutual fund with a 5% back end load.

- Judy's entire \$5,000 is immediately invested.
- If Judy wants to sell her fund 2 years after she bought it, she will pay 3% of the fund value.
- If Judy waits until Year 6 to sell her fund, she will pay no fee to sell it.

Mutual Fund Fees

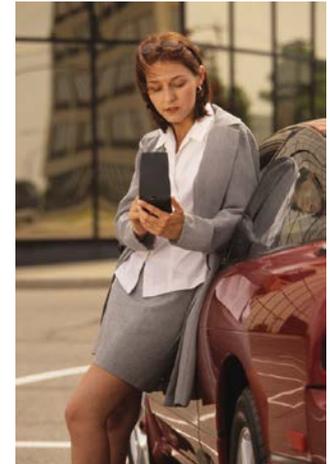
No Load

A mutual fund in which shares are sold without a commission or sales charge.

- The reason for this is that the shares are distributed directly by the investment company, instead of going through a secondary party.
- This is the opposite of a load fund, which charges a commission at the time of the fund's purchase or at the time of its sale.
- No load funds cover their operating expenses from the annual Expense Ratio.

Example: Sarah invests \$2,500 in a no load mutual fund.

- Sarah's entire \$2,500 is immediately invested.
- If Sarah wants to sell her fund at any time, she may do so without a back-end fee.
- Some mutual fund companies do charge a fee to sell a fund within 30, 60, or 90 days. This is called a short term trading fee and is meant to discourage day trading in the fund.





Mutual Fund Fees

Expense Ratio

The annual amount it costs an investment company to operate a mutual fund.

- An expense ratio is determined by dividing the fund's operating expenses by the average dollar value of its assets.
- Operating expenses are taken out of a fund's assets and lower the return to a fund's investors.
- Expense Ratios are disclosed as a percentage.
- The higher the Expense Ratio, the less of your investment you keep each year.
- All mutual funds charge an expense ratio. There is no such thing as a mutual fund with no fees!

Example: Josh has \$10,000 each in 2 different Mutual Funds

- Fund ABC has an expense ratio of .55%. The annual dollar amount Josh pays for Fund ABC is \$55.
- Fund PDQ has an expense ratio of .87%. The annual dollar amount Josh pays for Fund PDQ is \$87.



Mutual Fund Fees

What are reasonable fees?

Different types of investments required different levels of work and costs to run. Therefore, what's a good fee in one type of fund may be expensive for another.

Type of Mutual Fund	Reasonable Range of Expense Ratios
US Large Company Stock Funds	.05% (Index funds) – 1.10%
International Developed Markets	1.00% - 1.60%
US Bond Funds	.45% - 1.00%
Foreign Bond Funds	.50% - 1.25%
Real Estate Funds	.6% - 1.15%

Resources to check mutual fund fees: Morningstar.com, Yahoo Finance

Stock Trading Fees



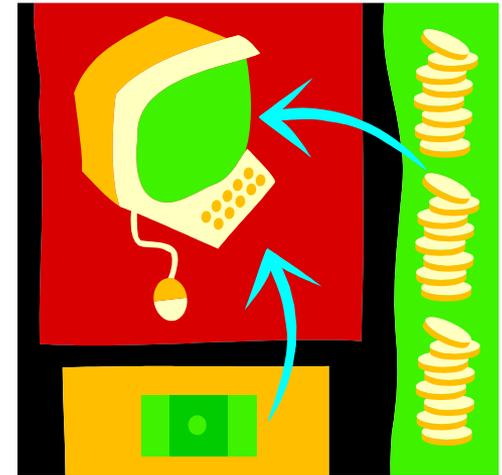


Stock Trading Fees

- You will pay a commission to trade stocks.
- The commission is charged both to buy and to sell stocks.
- The amount you pay varies by the type of stock broker you use
- Making trades online through a discount broker will generally cost between \$7 and \$20 per transaction.
 - You will not get help or advice for trading through an online brokerage
- Buying and selling stock through a full-service broker will generally cost \$100 or more per trade.
 - Full-service brokers are supposed to give clients more personalized service. They sometimes advise clients on picking stocks and when to buy and sell.

ETF Trading Fees

- You will pay a commission to trade ETFs like stocks.
- The commission is charged both to buy and to sell ETFs.
- ETFs, since they are a pooled investment, also have annual expense ratios.
- It's a good idea to check that the expense ratio of the ETF you are buying is less than a comparable mutual fund. If not, you will be paying trading costs to pay extra for an investment that you may be able to buy without a commission.



Paying for Investment Advice



Ways to Pay for Investment Advice

Commission-based Brokers

Brokers sell investment products for which they get paid a percentage of your assets for the sale.

- **Pro:** The cost of the broker's expertise comes from the assets you invest. You don't have to write a separate check for his advice.
- **Con:** Is the product the broker recommending best for you or best for him? Also, it can be a while before you break even on your investment after commissions have been paid.
- **Best for:** People just starting out in investing who need some hand-holding, but don't have extra money to pay separately for advice.





Ways to Pay for Investment Advice

Percentage of Assets Under Management.

Here, you pay an annual amount over all of your assets for ongoing investment monitoring.

- Typically, the charge is about 1%/year of assets managed.
- Charges are deducted from the investments quarterly
- If your assets go up in value, the dollar amount you pay rises.
- If your account drops in value, the dollar amount you pay is less.

Pros: Generally your investments will be in no-load mutual funds or other less expensive products. The adviser is incented to keep you as a long term client, not just a quick sale.

Cons: Larger account minimums are usually required to use these services.

Best for: People who have accumulated a nest egg of \$100,000 or more and would like professionals to manage the investment mix.

Retirement Plan Costs



What Does it Cost to Run a Retirement Plan?

Retirement Plans Come with Many Administrative Costs



- Recordkeeping Fees
- Mailing Costs
- Legal Advice
- Investment Consulting
- Costs for the 800-numbers and Website Administration
- Compliance testing (where required)
- Investment management fees

How do I Pay for Retirement Plan Costs?

Just like your other benefits (health insurance, life insurance), retirement plan costs are generally shared between employer and employee.

Employee Pays

- Investment Fees
(Expense Ratios of Mutual Funds)
- Some Administrative Costs



Employer Pays

- Some Administrative Costs
- Plan contributions



How do I know how much I pay for my retirement plan?

Retirement plan costs are disclosed on your statements.

- **Expense Ratios** – On the Wells Fargo Website, to go the Actions and Investments Tab. In the drop down menu, click Research Investments. In the next drop down menu, go to Investment Performance. There is a list of the investments with their performance. The expense ratio information is in the last 2 columns.
- **Investment Advisory Fee** – on page one of your statement in the Account Summary section



Summary and Resources



Summary

Here are few thoughts to take away from today's presentation

- There is no such thing as a free investment. Investment fees are not obvious like price tags on shoes, but they are there and it is our job as investors to be informed about what we are paying.
- There is no bad way to buy investments. Different approaches make sense for different people and situations.
- Paying more for investments doesn't mean you are getting better quality.
- Retirement plans are not free and we all share the cost of the benefits with our employers.





How to Access Your Account

Your MPP Plan Provider: Wells Fargo

- www.wellsfargo.com/retirementplan
- 800-728-3123 for one on one help
- Access your account to:
 - View your account balance
 - Change your investment elections

Strategies, LLC is the Investment Advisor for your plan.

- ksullivan@strategies-llc.net or 1-800-276-8952 for investment help on the MPP
- Strategies can give investment advice, but we cannot make changes to your account.

