

Mutual Funds...Made Easy

What You Must Know

Should they be a part of your portfolio?

Some - perhaps

Some - absolutely not

How to recognize those that are harmful

Session IE1331

Bob Adams

bob.at.seattle@gmail.com

www.bob-adams.net

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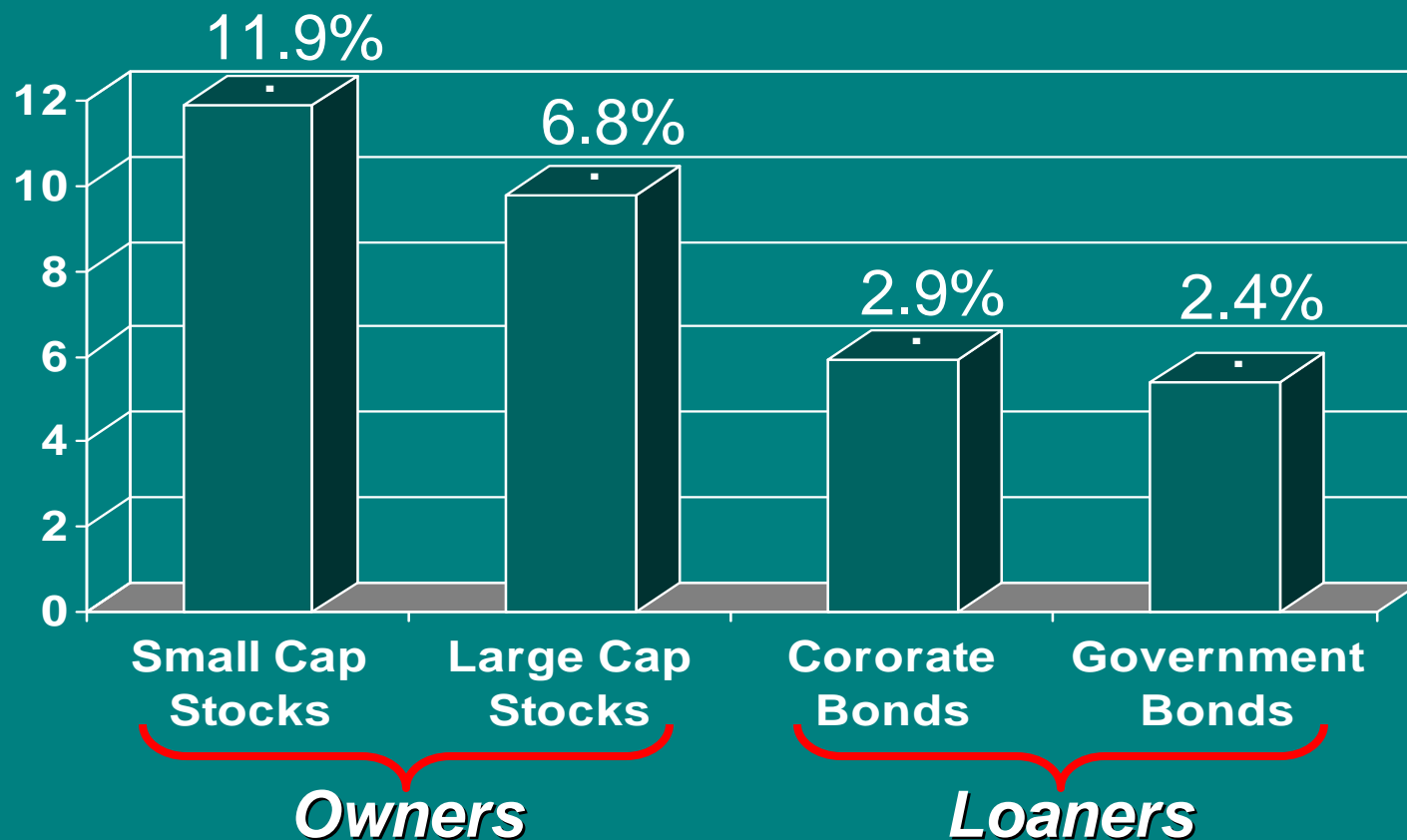
Mutual Funds...Made Easy

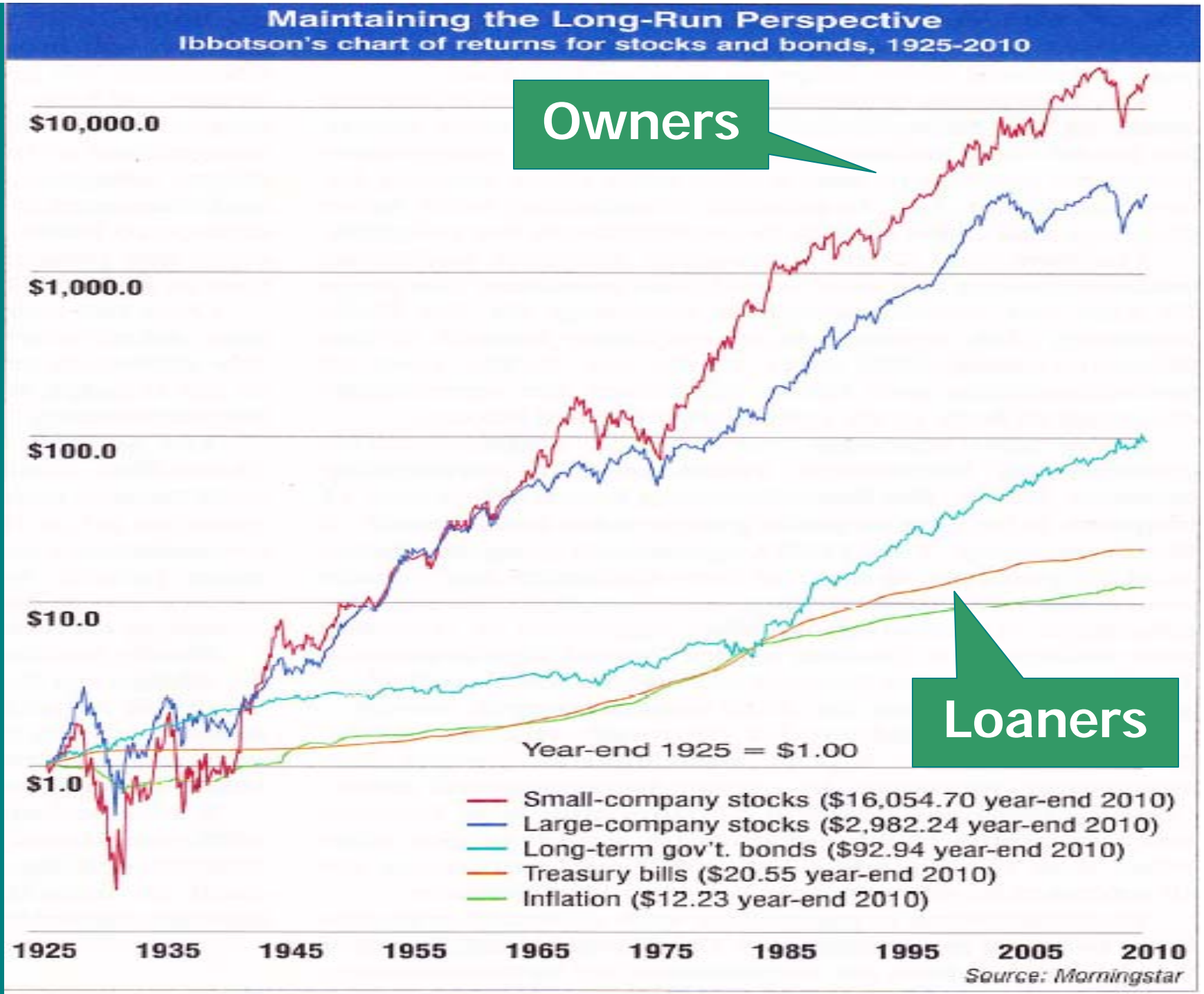
- Separate the grain from the chaff
- Should you be a owner – Equities
- Should you be a loaner – Bonds

- Where is the long-term safety
 - “Buying Power” is the key -- After Inflation

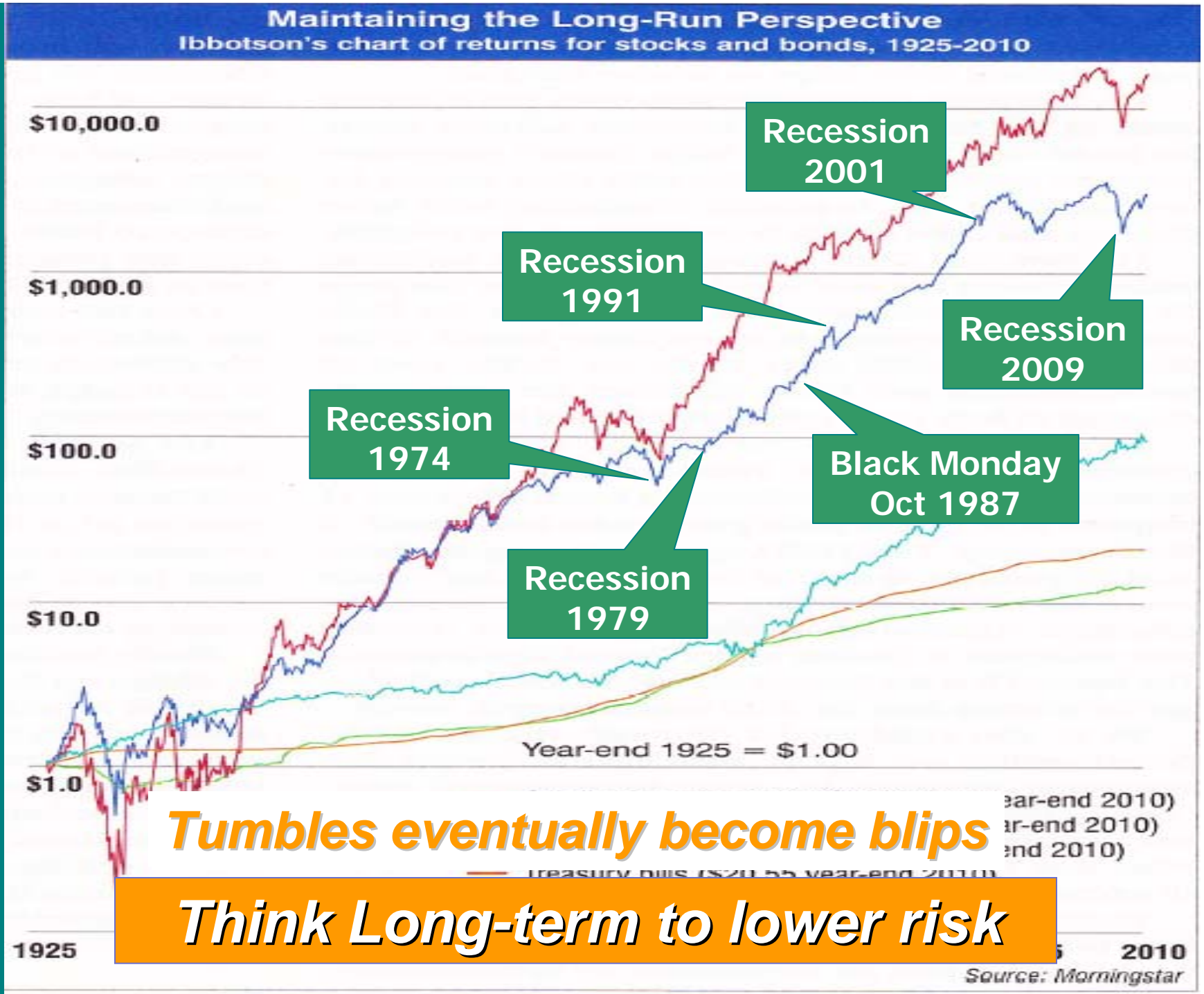
A Little History

- COMPOUND ANNUAL RATES OF RETURN – Jan 1925 through Dec 2009 (not adjusted for inflation)





Where are those downturns?



Beginning 2012: (for the first time)

- 401(k) Expenses must be disclosed
 - Average 401(k) fees – 2% or more
 - Fees are highest in small companies
- Look at plan-fund menu
 - Select lower cost funds
 - Research 3 and 5 year returns
- Find the best fund—compare:
 - Mutual Fund expenses and return
 - Index Fund expenses and return

Investors > Tools & Calculators

FINRA Mutual Fund Expense Analyzer

www.finra.org/fundanalyzer

[Analyzer Home](#) | [Disclaimer](#) | [Expense Data](#) | [Methodology](#) | [Glossary](#)

[Print this Page](#)

Select Fund	Report Summary	Chart Data	Fund Details	Full Report
Estimated Fund Values After Expenses at the End of the 20-Year Holding Period				
Results	TIAA-CREF Large Cap Growth Retail Class Shares	FIMAGX	Vanguard 500 Index Fund Investor Class Shares	
Ticker Symbol:	TIRTX	FIMAGX	VFINX	
Investment Amount:	\$30,000.00	\$30,000.00	\$30,000.00	
Estimated Return You Selected:	6%	6%	6%	
Holding Period:	20 Years	20 Years	20 Years	
Fund Value After 20 Year(s):	\$84,317.12	\$83,144.97	\$94,120.63	
Profit/Loss:	\$54,317.12	\$53,144.97	\$64,120.63	
Total Fees & Sales Charges:	\$6,938.27	\$7,611.67	\$1,106.67	
Total Fees:	\$6,938.27	\$7,611.67	\$1,106.67	
Total Sales Charges:	\$0.00	\$0.00	\$0.00	*

Did returns justify the higher expenses?

\$84,317

\$83,145

\$94,121

\$6,938

\$7,611

\$1,106

Investors > Tools & Calculators

Fund Analyzer

[Additional Information](#)

The Fund Analyzer offers information and analysis on over 18,000 mutual funds, Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs). This tool estimates the value of the funds and impact of fees and expenses on your investment and also allows you the ability to look up applicable fees and available discounts for funds.

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Search Browse Screener Favorites (0)

How to use this tool

- Enter the name, ticker symbol or keyword for the fund.
- Once the results appear, click on a fund to add it to your Selected Funds list.
- You can compare up to three funds from your Selected Funds list at a time.
- You can browse for funds alphabetically by clicking the Browse tab above.
- Use the Fund Screener to filter your search using standard criteria.
- Save often used funds by clicking the 'Add to Favorites' icon.

Selected Funds

1 x + Fidelity Magellan Fund [FMAGX]

2 x + Vanguard 500 Index Fund Investor Class [VFINX]

3

Show Results

Clear List

Enter or change your investment details

Investment: (\$) Return: (%) Period: (years) Summary ?

	Fidelity Magellan Fund	Vanguard 500 Index Fund Investor Class
	Data as of 5/31/2013	Data as of 5/23/2013
Ticker Symbol	FMAGX	VFINX
Investment Amount	\$10,000.00	\$10,000.00
Estimated Return You Selected	5.0%	5.0%
Holding Period	10	10
Fund Value After 10 Year(s)	\$15,417.30	\$16,014.39
Profit/Loss	\$5,417.30	\$6,014.39
Total Fees & Sales Charges	\$688.27	\$217.13
Total Fees	\$688.27	\$217.13
Total Sales Charges	\$0.00	\$0.00

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Redeemed Fund Value Over Time After Expenses







Fidelity Magellan Fund Vanguard 500 Index Fund Investor Class



	Fidelity Magellan Fund			Vanguard 500 Index Fund Investor Class		
Year	Redeemed Value	Profit/Loss	Fees & Expenses	Redeemed Value	Profit/Loss	Fees & Expenses
10 Year(s)	\$15,417.30	\$5,417.30	\$688.27	\$16,014.39	\$6,014.39	\$217.13
11	\$16,099.38	\$6,099.38	\$774.92	\$16,786.55	\$6,786.55	\$245.00
12	\$16,811.63	\$6,811.63	\$865.42	\$17,595.21	\$7,595.21	\$274.22
13	\$17,555.40	\$7,555.40	\$959.91	\$18,444.36	\$8,444.36	\$304.85
14	\$18,332.07	\$8,332.07	\$1,058.59	\$19,333.69	\$9,333.69	\$336.95
15	\$19,143.10	\$9,143.10	\$1,161.63	\$20,265.89	\$10,265.89	\$370.61
16	\$19,990.02	\$9,990.02	\$1,269.23	\$21,243.04	\$11,243.04	\$405.88
17	\$20,874.40	\$10,874.40	\$1,381.59	\$22,267.31	\$12,267.31	\$442.86
18	\$21,797.91	\$11,797.91	\$1,498.92	\$23,340.97	\$13,340.97	\$481.62
19	\$22,762.27	\$12,762.27	\$1,621.44	\$24,466.39	\$14,466.39	\$522.25
20	\$23,769.30	\$13,769.30	\$1,749.38	\$25,646.08	\$15,646.08	\$564.84

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Annual Expense Comparison by Product and Share Class

	Fidelity Magellan Fund	Vanguard 500 Index Fund Investor Class
Annual Operating Expenses	0.55%	0.17%
Prospectus Objective	 Less than Average of Similar Growth Mutual Funds: 1.15% (390 Mutual Funds)	 Less than Average of Similar Growth and Income Mutual Funds: 1.04% (91 Mutual Funds)
Morningstar Category	 Less than Average of Similar Large Growth Mutual Funds: 1.08% (121 Mutual Funds)	 Less than Average of Similar Large Blend Mutual Funds: 1.03% (82 Mutual Funds)
Morningstar Rating (3-year)	 Less than Average of Similar Morningstar 1 Star-Rated (3-year) Mutual Funds: 1.50% (103 Mutual Funds)	 Less than Average of Similar Morningstar 4 Star-Rated (3-year) Mutual Funds: 0.92% (185 Mutual Funds)

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Mutual Funds—pros/cons

- Pros: (Managed Funds – ETFs – Index)
 - Convenient
 - Easy
 - Automatic investing

Mutual Funds—pros/cons

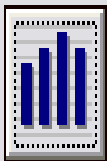
- Cons: (Managed)
 - Under perform the market
 - Expensive –
 - 1.5% average annual fee
 - Short term Capital gains taxed at your rate 1.43%
 - Result: High turnover (high taxes & trading fees)
 - Transaction Fees 1%
 - 12b(1) Fee .25% - up to 1% No Load Funds

Expenses are Important

- The difference:
 - *Your broker's yacht*
- OR
 - *Your yacht*

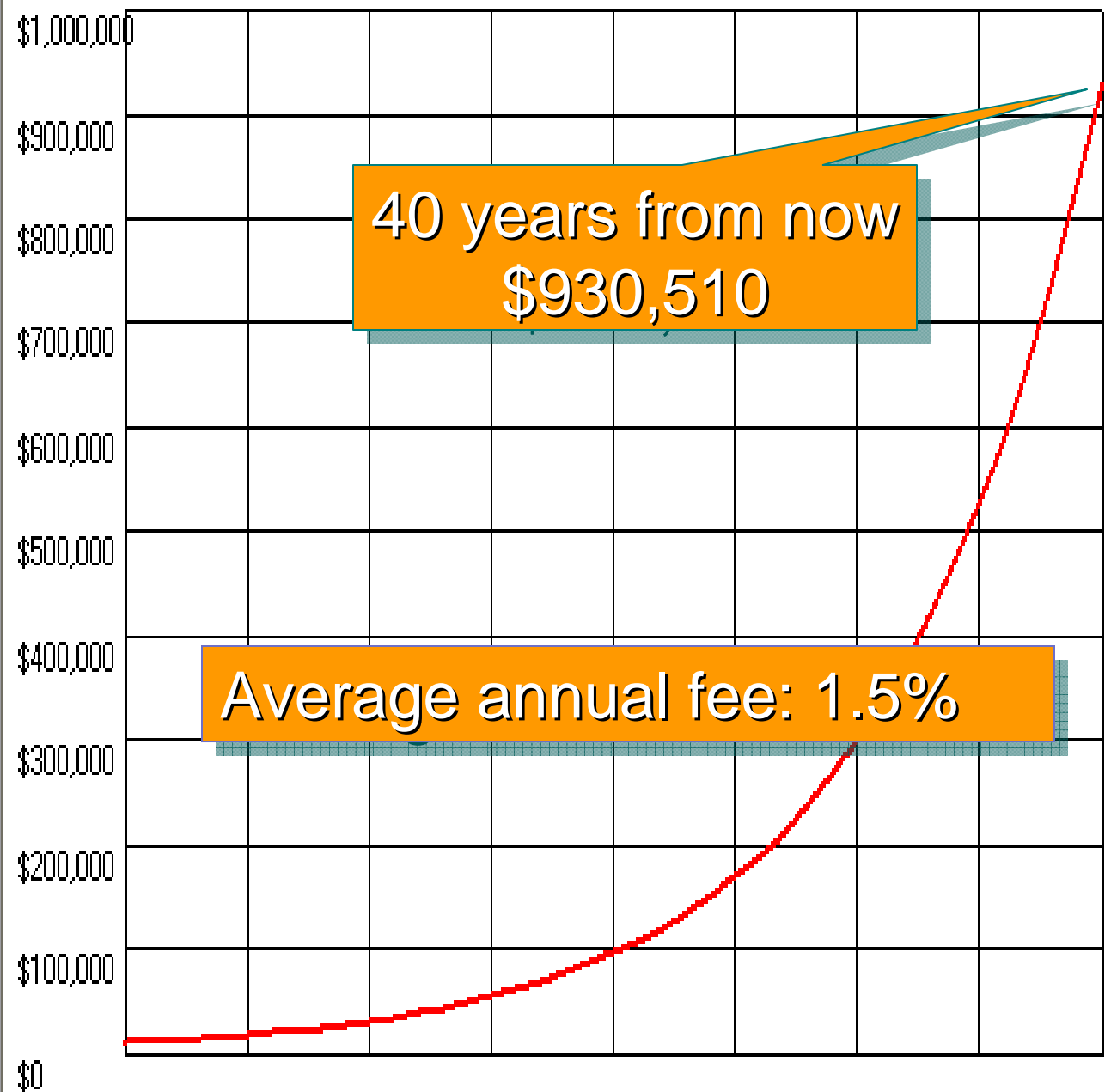
Portfolio Value \$	\$10,000
Contributions/Month \$	\$0
Portfolio Growth %	12
Years to Retirement	40
Taxes and Expenses %	0.0
Portfolio Turnover %	0.0
Inflation %	0.0

Calculate



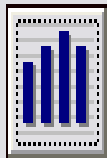
Result

Portfolio value in 2047 = \$930,510



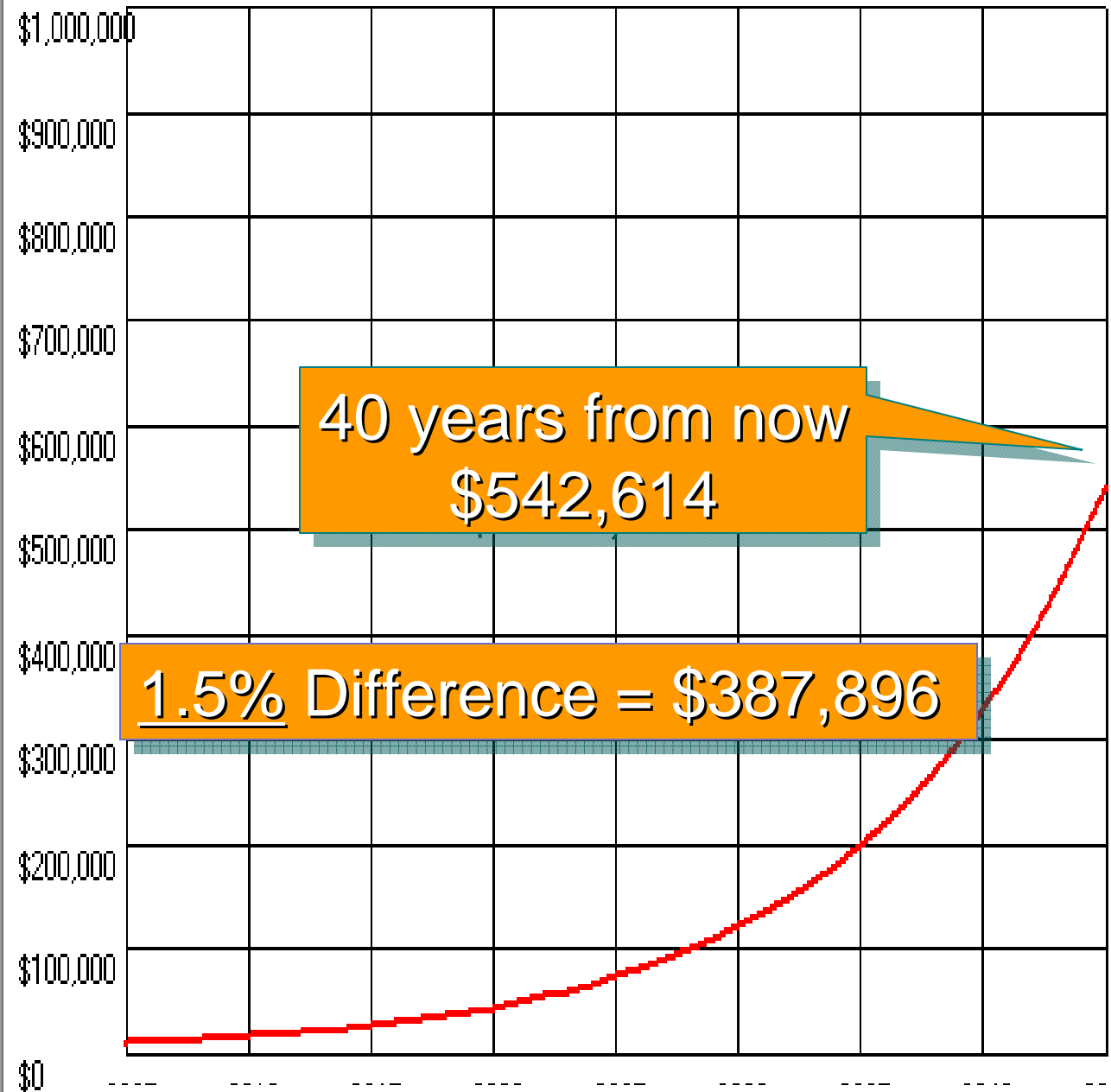
Portfolio Value \$	\$10,000
Contributions/Month \$	\$0
Portfolio Growth %	10.5
Years to Retirement	40
Taxes and Expenses %	0.0
Portfolio Turnover %	0.0
Inflation %	0.0

Calculate



Result

Portfolio value in 2047 = \$542,614



But wait...there's more

- Uncle Sam taxes Mutual Fund Capital Gains
 - Each year 100-300% portfolio turnover
 - 2006 – Taxes cost Mutual Fund investors
 - 1.43%*

12b(1) fees -- .25% minimum – up to 1%

Result:

$1.5\% + 1.43\% + .25\% = >3\%$ annual cost

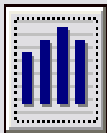
* Reported by:



But... Wait there's more!

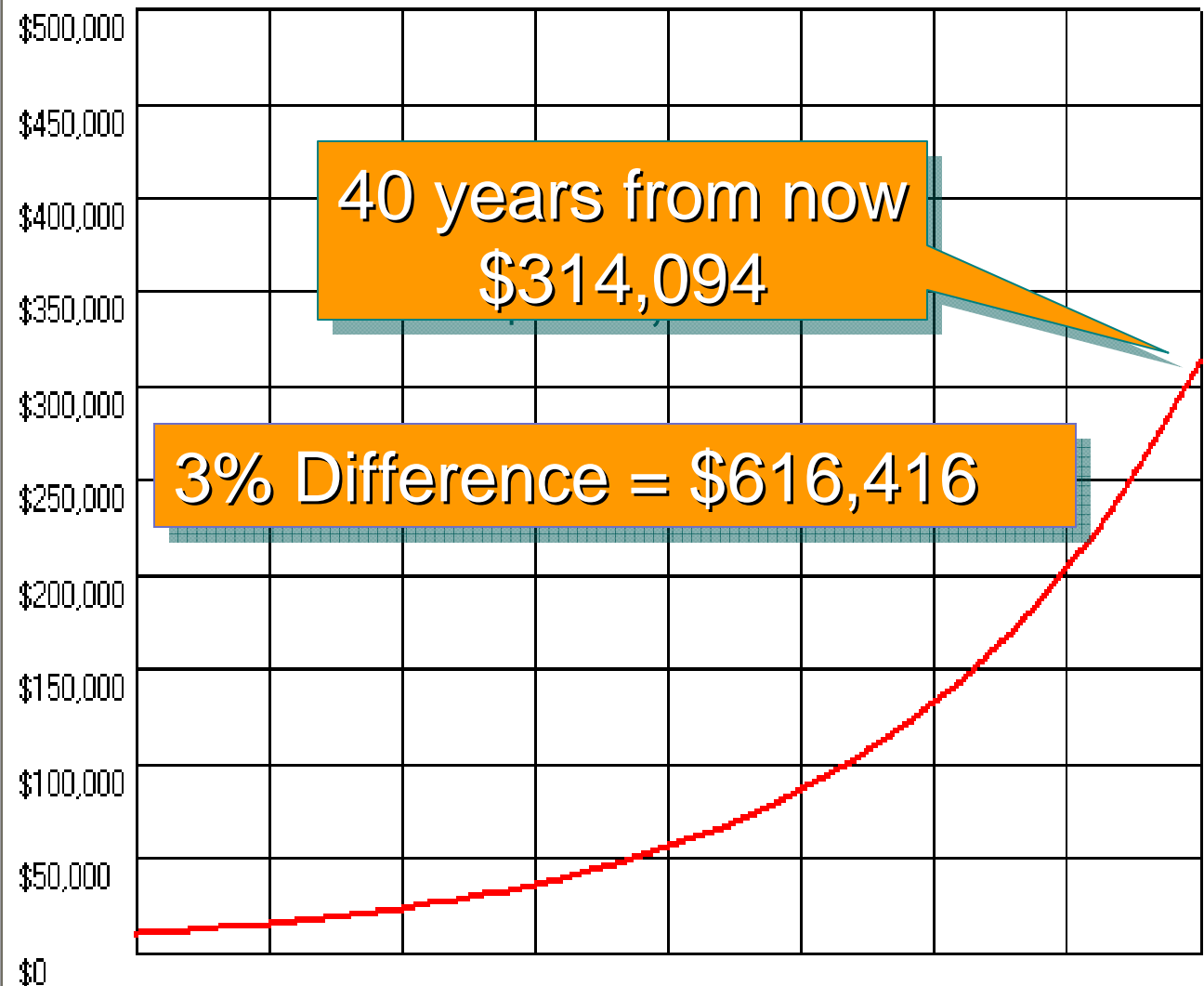
Portfolio Value \$	\$10,000
Contributions/Month \$	\$0
Portfolio Growth %	9
Years to Retirement	40
Taxes and Expenses %	0.0
Portfolio Turnover %	0.0
Inflation %	0.0

Calculate



Result

Portfolio value in 2048 = \$314,094



But... Even MORE???

- We didn't include Brokerage Commissions

1% Annually*

Result:

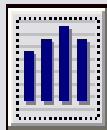
$1.5\% + 1.43\% + .25\% + 1\% = >4\%$ annual cost

* John Bogle – *Common Sense Investing*

4% annual expenses

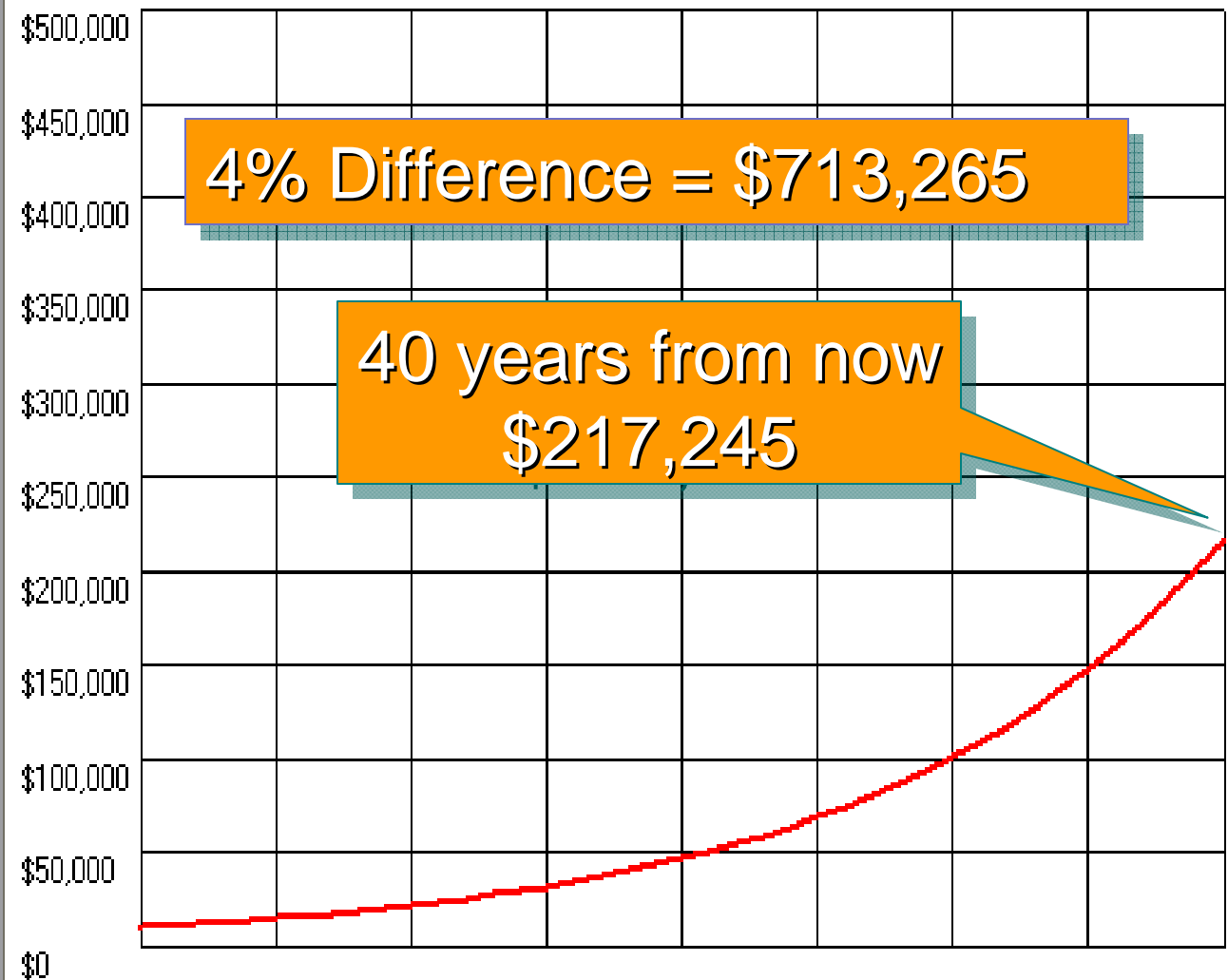
Portfolio Value \$	\$10,000
Contributions/Month \$	\$0
Portfolio Growth %	8
Years to Retirement	40
Taxes and Expenses %	0.0
Portfolio Turnover %	0.0
Inflation %	0.0

Calculate



Result

Portfolio value in 2049 = \$217,245



Index and ETF Funds

- Next:
 - Index Funds
 - Exchange Traded Fund (ETF)

Index Funds—pros/cons

- Pros:
 - Convenient
 - Easy
 - Automatic investing
 - Return approximates the market average
 - Very low turnover – Very low capital gains
 - Long term Capital gains taxed at 15%
 - No measurable turnover costs (brokerage fees)
 - Inexpensive – .1% to .18% annual fee
- Cons:
 - Slightly under perform the market average

Index Funds—pros/cons

Index 500 funds	Expense ratio	w/Load charges
Fidelity Spartan*	0.07%	None
Vanguard Admiral*	0.09%	None
Vanguard Regular	0.18%	None
T. Roe Price	0.35%	None

* Minimum investment and/or specified holding period

Morgan Stanley	0.64%	1.40%
Wells Fargo	0.64%	1.39%
Evergreen	0.56%	1.31%
J. P. Morgan	0.53%	1.30%

The Little Book of Common Sense Investing—Bogle p128

Index Exchange Traded Fund (ETF)—pros/cons

- Pros:
 - Convenient
 - Easy
 - Automatic investing
 - Return approximates the market average
 - Buy and Sell like regular stocks
 - Somewhat Inexpensive – .15%-.2% plus trading fee
 - Capital gains taxed at 15% if held 12 months
- Cons:
 - Slightly under perform the index average
 - Cost normally higher than an Index Fund

Index Exchange Traded Fund (ETF)—pros/cons

- Beware of “Ultra” ETFs
 - – leveraged
 - – short-term investing (36-60 times turnover)
 - *“Individual investors...may not be aware of the risks these funds carry. Given their volatility, these funds typically are not suitable for most retail investors.”*

NASAA (North American Securities Administrators Association)

Whatever the Investment method:

- Don't Panic
 - The Market Fluctuates—expect it!
 - Stay the course—don't be a lemming
 - 20 year study (1988-2008)
www.dalbar.com
 - S&P 500 return: **8.35%**
 - Average Equity investor return: **1.87%**
 - Inflation: **2.87%**
- You can create a permanent loss—only by selling

NBR

FUND FLOWS

IN MILLIONS OF DOLLARS

Captured from NBR
(Nightly Business Report)

\$\$ Into Bonds

40,000

Bonds

0

Equity

Are interest rates
going to increase?

\$22 Billion

-30,000

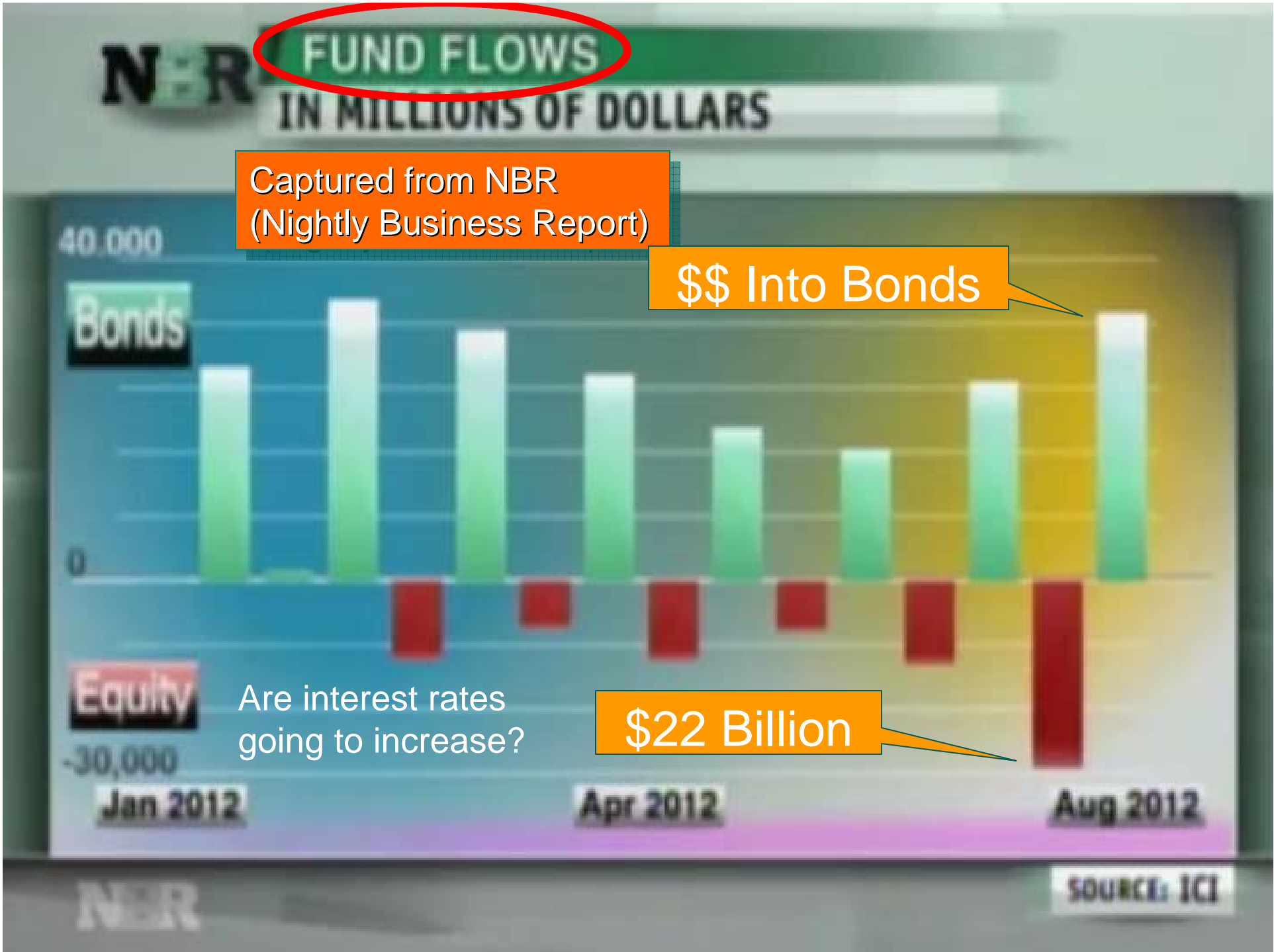
Jan 2012

Apr 2012

Aug 2012

NBR

SOURCE: ICI



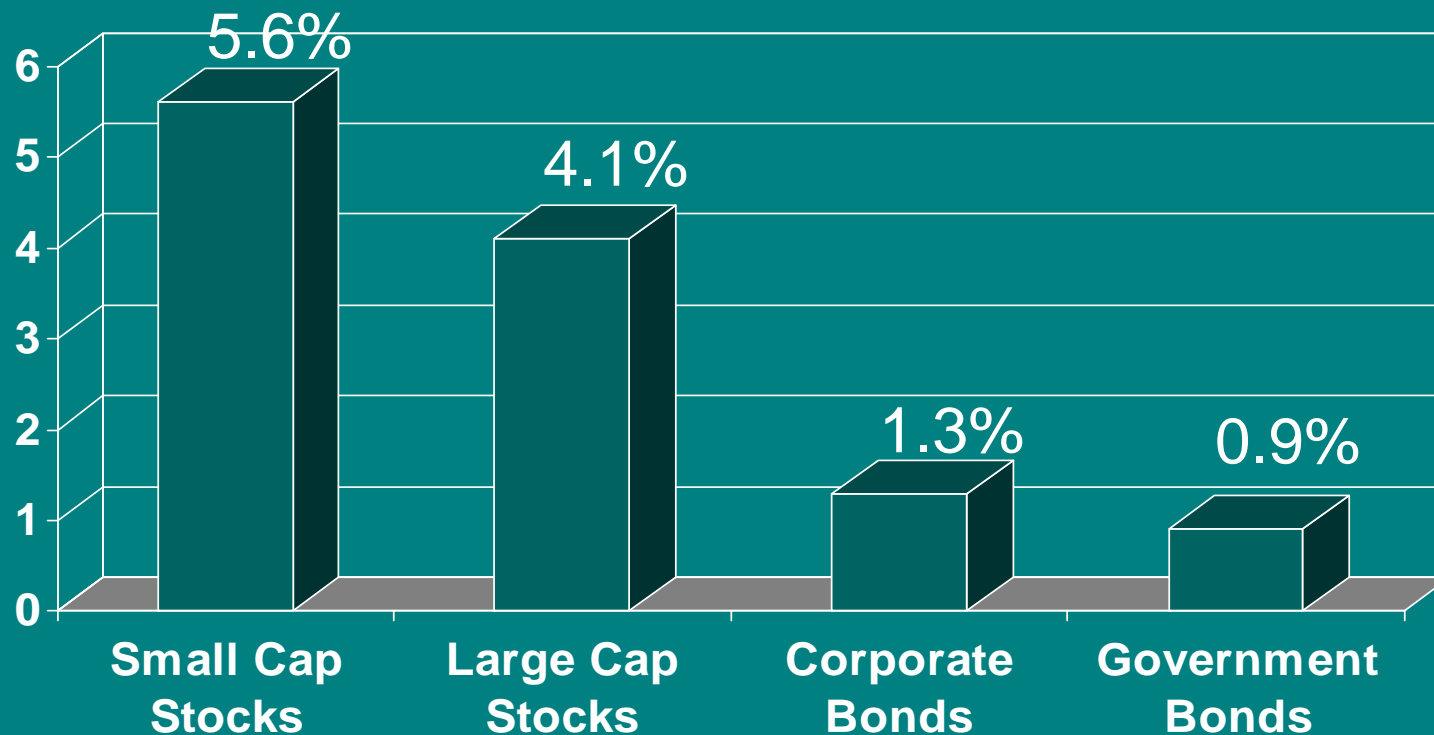
Don't Panic

- A Financial Advisor may be for you if:
 - You can't fight the urge to sell in a down market
 - You can't fight the urge to buy hot funds & stocks
- If So:
 - Use a flat fee Advisor – 1% is normal charge
 - Ask to see past record – did they beat the market
 - Do they compare the market with your portfolio
 - A comparison is the only way to observe results

Are Bonds Safer than Equities?

COMPOUNDED ANNUAL RATES OF RETURN
(adjusted for inflation)

January 1926 through December 2009



Are Bonds Safer than Equities?

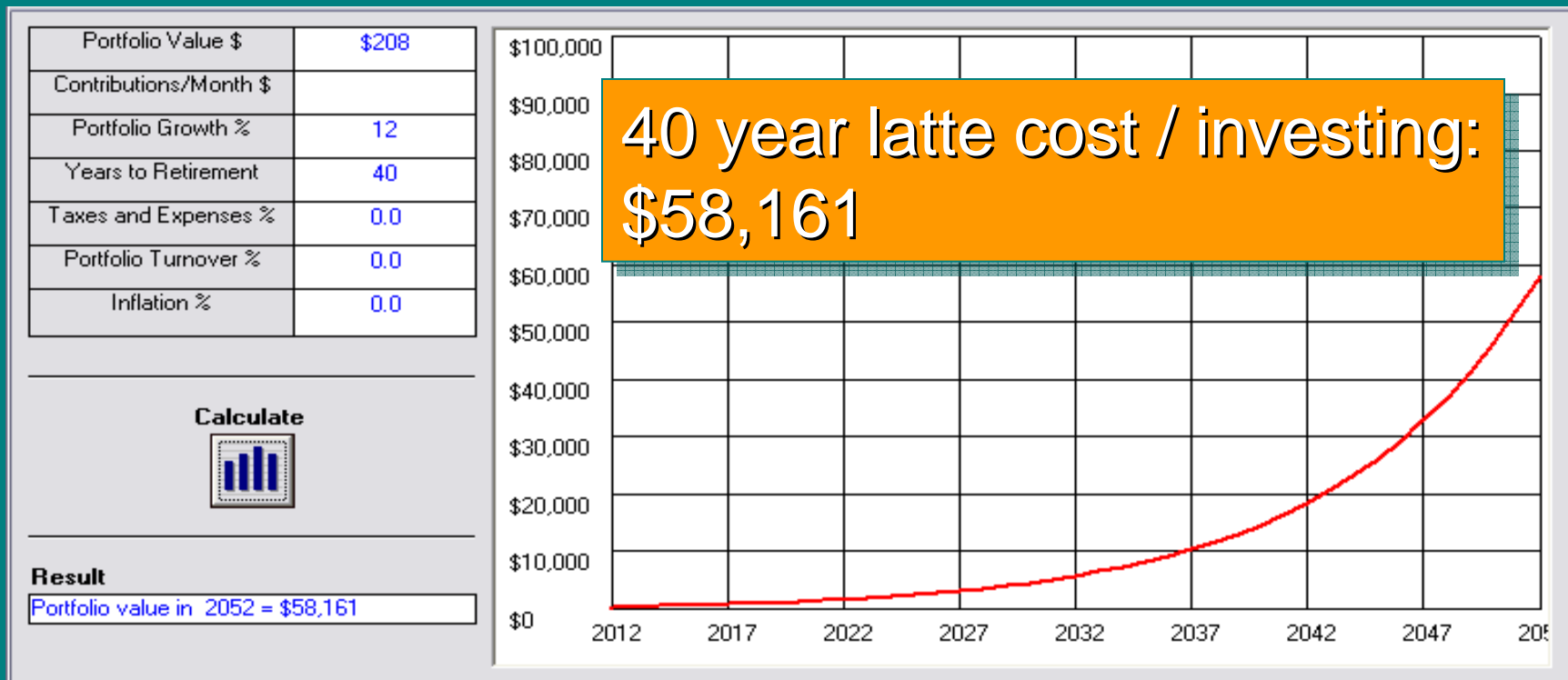
- Short term – Perhaps
- Long Term – (Statistically) No
 - Think “Buying Power”
 - At 0.9% or 1.3% growth – after inflation/taxes
 - No room for error
 - At 4.1% or 5.6% growth – after inflation/taxes
 - More room for error

Historically:

- The market: euphoria followed by panic
 - Expect it – but don't try to time it
- Take advantage by:
 - Dollar Cost Averaging
 - Buy when others are selling
 - Sell when others are buying

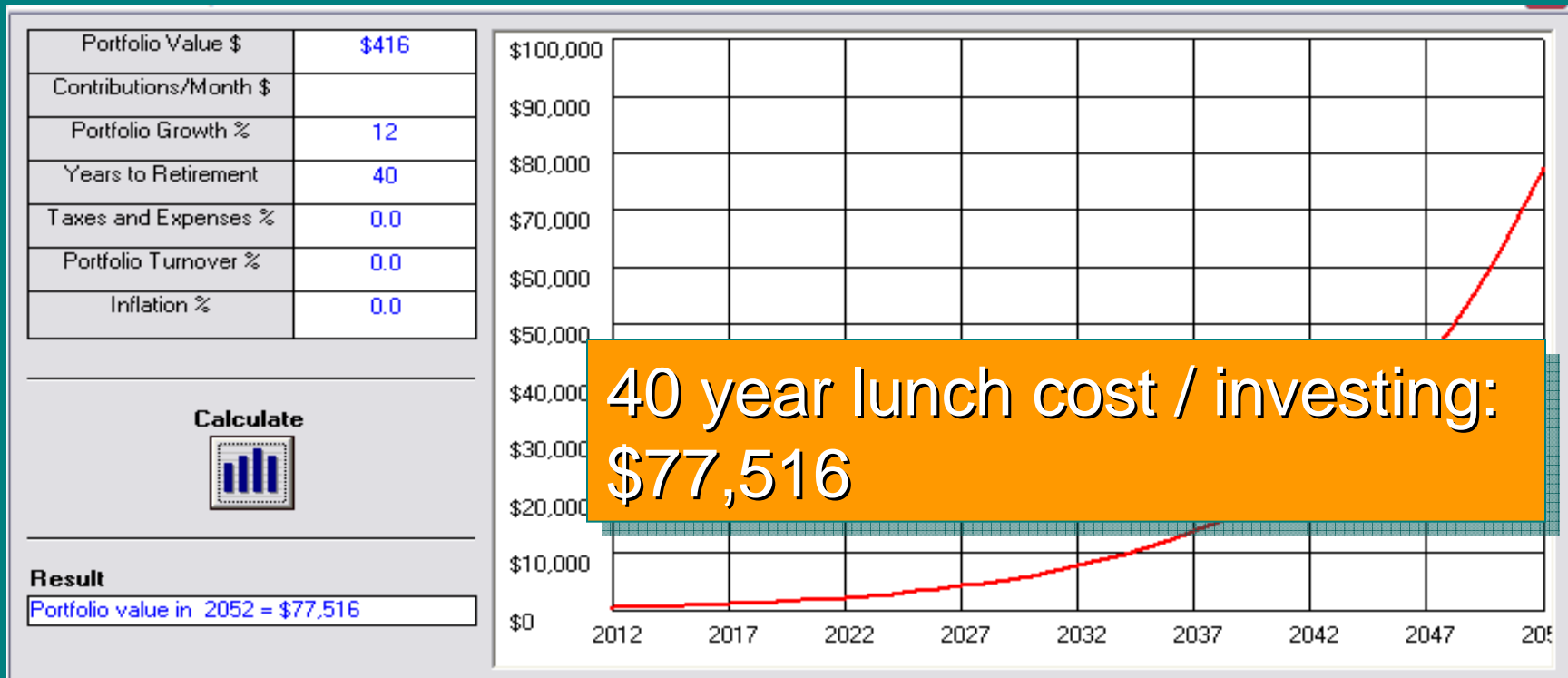
The “Real” cost of “things”...

- Debt is a form of slavery
 - \$4 latte – just 1 each week (\$208 per year)
 - \$8 lunch – just 1 each week (\$416 per year)



The “Real” cost of “things”...

- Debt is a form of slavery
 - \$4 latte – just 1 each week (\$208 per year)
 - \$8 lunch – just 1 each week (\$416 per year)



No matter the investment tool:

- Mutual funds
 - Index funds
 - Bond funds
- Individual companies
- Know the costs
- Know the results
- Compare results with a market average

<http://finance.yahoo.com/q?s=%5EGSPC&qI=0>

S&P 500 -- DJIA

Estimate Your Portfolio's Rate of Return - Calculator

Enter values for your portfolio – then a Market Average **VTSMX**

www.mymoneyblog.com/estimate-your-portfolios-rate-of-return-calculator.html

know the exact dates of all your deposits and withdrawals, along a financial calculator or software that uses the IRR function. For an simple and quick estimate of your portfolio's rate of return (or any other period), try

Value Jan 1st

Value Dec 31st

Deposit if any

Mkt. Avg. =
DJI index

Initial Balance:	\$ 1000
Total Deposits:	\$ 240
Total Withdrawals:	\$ 0
Final Balance:	\$ 1500
Time period:	1 year (s)
	<input type="button" value="Calculate"/>
Your estimated rate of return:	23.21 %
	<input type="button" value="Calculator"/> <input type="button" value="DJI-History"/>

Qtrly 3/12=.25
6 Months 6/12=.5

Instructions

<http://finance.yahoo.com/q/hp?s=^DJI+Historical+Prices>