Fees & Expenses

Costs related to advice and investing can greatly impair your ability to generate wealth over time. Over a 40-year period, fees and expenses of 2% per year can decrease your portfolio value by 40%*

As an informed investor, you should know the fees you're paying and what they mean for your nest egg. Here's a quick summary of some of the most common fees and expenses, some of which are not listed on the monthly statement you receive from your advisor. If your advisor works for a bank or a brokerage firm, there's a good chance you're paying each of these fees in some capacity. Make no mistake, advisors and planners deserve to be paid for their services and expertise, and many of them routinely provide value that exceeds the fees they charge, especially if they're serving as your fiduciary. In any event, it's up to you to decide if the amount you're being charged is commensurate to the service you receive in return.

Load Fee/Commission | Frequency: one-time

A load is a commission or sales fee charged to an investor when they purchase or redeem mutual fund shares. Load fees are set by mutual fund companies and are used to compensate your advisor or broker for selling shares of a particular fund. Loads come in the form of a "front-end" or "back-end" fee. Front-end loads are charged at the time the investor purchases fund shares, and back-end loads are charged to the investor when the shares are sold. Load fees can be avoided entirely by investing through a discount brokerage firm (e.g., Vanguard).

One-Time
2.50% - 5.75%
(Typical range)

Marketing & Distribution Fee | Frequency: annual/ongoing

Mutual fund companies frequently charge marketing or distribution fees to existing investors. In the U.S., these charges are called 12b-1 fees, named after the section of federal legislation that authorizes fund companies to use mutual fund assets to cover distribution charges. These fees are an annual marketing or distribution fee charged to existing investors. This money is often used to incentive salespeople (e.g., your advisor or broker) to market certain mutual fund products to new investors. This fee is classified as a fund operating expense and is *included in the fund's expense ratio*. It is charged as a percentage of fund assets and can be as high as 1.0% per year.

Annual
0.50% - 0.75%
(Typical range)

Management (AUM) Fee | Frequency: annual/ongoing

AUM fees are periodic charges from your advisor or asset manager for managing your portfolio. The fee is typically charged as an annual fixed percentage of the market value of your portfolio. AUM fees vary widely across the industry. A 1.00% AUM fee is often considered "typical", although the size of the fee can vary based on portfolio size, and wealthier clients often receive discounts.

Annual
0.50% - 2.00%
(Typical range)

Expense Ratio | Frequency: annual/ongoing

An expense ratio is a measurement of a fund's operating and administrative expenses as a percentage of total assets under management. Expenses reduce the fund's investment return. Expense ratios can vary widely, and tend to be much higher for *actively* managed (as opposed to *passively* managed) funds. This is because actively managed funds tend to have larger teams of analysts and fund managers actively researching and evaluating potential investments. Since actively managed funds are seeking profitable trade opportunities, they tend to buy and sell securities with more frequency, resulting in higher trading costs. More frequent trading can also result in higher taxes as securities are bought and sold, and profits are realized. Ironically, passively managed funds tend to consistently outperform actively managed funds.

Active
0.50% - 1.00%
(Typical range)

Passive
0.04% - 0.25%
(Typical range)

*$1 saved annually and invested at 7.0% per year for 40 years ≈ $214. $1 saved annually and invested at 5.0% per year for 40 years ≈ $127. ($127 ÷ $214) – 1 ≈ -40.7%.