

When You're Serious...

by Bradley R. Newman, CFP®

What Fees Can't I see...

"There's no such thing as a free lunch". You've heard it before, and possibly given that advice to others, but the truth in those words is undeniable. Regardless of how smooth the sales pitch is or how convincing the salesman; just remember, you don't get "something" for "nothing" – and nowhere is that more true than in the financial and investment world.

Full Disclosure Can Be Scary

When it comes to the investment of your hard-earned dollars, wouldn't you agree that the concept of full disclosure is beneficial? Isn't knowing the full cost that you are paying for a product or service and then clearly being able to quantify what you are getting for your money preferable to getting only a portion of the detail or being kept in the dark? While this makes sense conceptually, the downside to full disclosure is that, much like seeing the sausage made, truly full disclosure in many instances will cause you to lose your appetite.

Because of this, there is a segment of the population that is comfortable not knowing the details and is happy to operate under the premise that 'if I don't see the fee, it must not impact me' – the same school of thought that would tell you that 'if I don't go to the doctor, I can't be sick.

A Stealth Fee

The financial world is rife with hidden fees. Rather than trying to shed a light on all of them, as an example, let's examine the lesser known 12b-1 fee:

- 12b-1 fees began in the 1970s to aid new or smaller fund families in gaining more assets by allowing them to pass marketing or advertising costs on to current shareholders. The concept was that, as funds increased in size, the expenses would decline and eventually would be eliminated – but the reductions rarely occurred.
- In direct conflict with stated purpose of the 12b-1 fee, there are many funds that are no longer accepting new contributions, yet still charge a 12b-1 fee. Per Morningstar® data, there are currently 468 funds that are no longer accepting new contributions, but are regularly collecting a 12b-1 fee; this represents approximately 60% of funds that are currently not accepting new contributions.
- The maximum 12b-1 fee allowable is 1.00% per year and has largely morphed in to an annual commission that is paid to a salesperson or the organization they work for. To quantify the impact of the 12b-1 fee, if you have a \$500,000 portfolio the fee would translate to \$5,000 per year at the maximum 12b-1 fee of 1.00%.

Did You Find Them All?

While we've focused on the 12b-1 fee, the search for overt, and covert, fees in your investment portfolio is the equivalent to a financial 'Where's Waldo' search – no matter how confident you are in your search efforts, there is always going to be the lingering feeling that you've missed one.

There are multitudes of ways for Wall Street brokerage firms, banks and insurance companies to hide and manipulate the fees they charge; most of these organizations even get back-door, and undisclosed, compensation on the money-market funds they recommend to their clients.

Second Opinion

To ensure that you have ferreted out all the fees associated with your investment portfolio, hire an independent advisor on a purely fee-only basis to analyze the details of your situation and provide you with a comprehensive analysis.

Yes, there will be a cost to hire a qualified advisor to provide the analysis, but the only way you can truly ensure independence is to pay for it – remember, "There's no such thing as a free lunch".

Given the potential costs you could be paying in total fees, up to \$5,000 on a \$500,000 portfolio for 12b-1 fees alone, the ongoing savings could make the cost of a second opinion one of the best investments you ever made.

Bradley R. Newman, CFP® is with Roof Advisory Group, Inc., an independent investment management and financial advisory firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that provides portfolio management and financial planning services for individual and institutional clientele. The firm's email address is invest@roofadvisory.com