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What's Wrong with Mutual Funds?

The mutual fund, one of the great financial inventions of the 20th century, seems to have gone astray.

A mutual fund is a portfolio of stocks or bonds, managed by a professional. At its core, a mutual fund is a beautiful thing. Small investors gain the benefits of expert management and broad diversification.

Unfortunately, in an industry all about money, greed can creep in—both on the part of investment advisors and mutual fund managers—and insidiously creep back out with your wealth.

Here are some key issues to discuss with your advisor.

- **How much are you paying in fees?**

Unbeknownst to many investors, mutual funds charge an average annual fee of 2 to 3 percent, even when the fund goes down! Depending on the size of your portfolio, *you may be paying thousands of dollars, year after year, in fees.*

- **In what companies are your mutual funds invested?**

Mutual fund managers are deathly afraid of going through a period of relatively poor performance and the resulting rapid exodus of money from the fund. For this reason, many managers just follow the herd, picking the same widely held stocks.

- **How diversified are you?**

The concept of diversification can be

taken too far. Many funds hold in excess of 100 stocks, which makes it very difficult for the managers to outperform the market. Templeton Growth fund is a good example.

This problem is exacerbated if you hold several different funds, resulting in ownership in several hundred companies. With this much diversification, it is almost impossible to beat the market; the 2 to 3 percent fee is a waste of money! You'd be better off holding a low fee index fund. Ask yourself this: *if you were picking the stocks yourself, would you invest in 500 different companies?*

- **Can your financial institution offer more than just mutual funds?**

Banks and many financial planners are not able to offer you individual stocks or bonds and therefore have a vested interest in selling you mutual funds, when it may be wiser to take a different approach.

If you can't answer all these questions yourself, have a portfolio analysis done by a trusted advisor. ▲

The opinions expressed herein are the opinions of the writer, not of The Society.

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