NEW DIMENSIONS
WEALTH MANAGEMENT

825 Market Street, Suite 250
Allen, Texas 75013
972.996.4767
www.NDWealth.com

Cost Control: An Investor's Greatest Investment

In his collection of essays he called "Conduct of Life," Ralph Waldo Emerson quipped, "Money often costs too much." More than 150 years later, his observation stands. It's why we focus on one of the most effective ways to enhance your wealth: aggressively eliminating unnecessary investment costs.

IDENTIFYING EXPENSES: HIDDEN AND IN PLAIN SIGHT

The first step in managing investment expenses is to know where to find them. We divide them into two broad categories: transparent fees and hidden costs.

TRANSPARENT FEES

You can readily find and understand these fees if you take the time to look for them.

Fund management costs – These fees apply to mutual fund investments but not individual stocks and bonds. You'll pay the fund manager anywhere from a lot to a little for gazing into his crystal ball.

Trading costs – When you buy or sell mutual funds, stocks, bonds or other securities, you pay a broker a commission to place your trade. These commissions are typically disclosed in your trade confirmation statements.

Advisor support – Fee-only advisor like New Dimensions Wealth Management help you build and maintain your investment portfolio. We disclose our fees in the independent statements you receive from your account custodian, Charles Schwab Institutional.

HIDDEN TRADING COSTS

If all investment costs were fully transparent, we could just choose based on the cheapest rack rate and move on. But they aren't. And if you fail to account for the hidden "gotchas," you can lose real money in significant amounts. How significant? "Shedding Light on 'Invisible' Costs," a study published in the January/February 2013 Financial Analysts Journal, helps us quantify that figure. According to the paper's abstract (emphasis is our own), "The authors found that funds' annual trading costs are, on average, higher than their expense ratio and negatively affect performance."

In other words, evidence indicates that hidden costs can exceed those you see. And they only show up in the sneaky form of lower returns or lost opportunities. These losses are more difficult to measure but impact your bottom line just as severely.

Here are a few of the more opaque ways investing can cost you more than necessary:

- **Fund manager trading activity** – Some fund managers do a great job at minimizing the costs of buying and selling the securities within their funds. Some are diligent about transferring those cost savings on to shareholders like you. Others may not manage their trading costs as well, or they may pocket any savings for themselves.

- **Tax impact –** A fund designed to be held within your taxable accounts can be managed to limit unnecessary taxes. You can further manage your taxable portfolio to do the same.

- **Markups/Markdowns –** This is a nasty hidden expense particular to individual bond trades. When we buy and sell bonds, there is the equivalent of a "wholesale" versus "retail" price. The difference is a cost you pay to the broker above the "wholesale" price, and above any disclosed commissions. You may unknowingly be paying a lot more than is necessary.

TAKING CHARGE OF YOUR COSTS

So what are some of the steps we recommend for managing your investment costs?

The essential first step is to know what your funds' published costs are. Determine how they compare to other similar opportunities. You'll find these costs listed in the fund prospectus as fees. Look for expense ratios, 12b-1 fees and sales charges/loads. You can also find them summarized by Morningstar, along with an assessment of how they compare to other similar funds.

As a general rule, seek funds with low expense ratios and no 12b-1 fees or sales charges. Reasonable expense ratios are justifiable as fair compensation for a fund manager's efforts. You can use Morningstar's independent assessment to help define "reasonable". Other costs tend to be ill-disguised kickbacks - compensation to salespeople for pushing the fund. These sorts of added costs do nothing to contribute to your end returns, so avoid them.

Research your fund managers' trading skills. As we described above, poor trading management shows up in diminished returns rather than reflected in a fund's fees. So how do you know? Cost-effective trading includes incorporating:

- **A scientific approach**, based on the academic evidence on how our markets have delivered long-term wealth. This helps cut unnecessary trades and associated costs.
- **Patience** to be on the "cool" rather than the "hot" side of the trades. It's only logical that those who are anxious to secure or unload a position won't receive the best deals.
- **Buying power,** or being a big enough market player to command superior negotiating power.

Take note of your fund managers' commitment to client care. A fund manager can charge a little or a lot to be excellent or poor at the job. The goal is to seek a fund manager who aggressive about minimizing trading costs. Further he must pass those cost savings on to you and other fund shareholders. You can see these savings as lower expense ratios and higher long-term performance compared to appropriate benchmarks.

Be your own best champion. The best fund manager in the world can't save you from yourself. Avoid self-inflicted wounds from trading too often with no plan or failing to account for tax implications.

THE VALUE OF ADVISOR FEES

Last but not least, we must address our own advisor fees. We provide two key services to our clients. First, we help you maintain cost-effective investments and investment habits. Second, we provide comprehensive financial planning. We seek to provide additional value through other services such as building improved financial confidence into your busy life. We are diligent in providing our services for fees lower than the industry average. Our financial planning and wealth management fee schedule is available on our website by clicking HERE.

In considering best practices for managing your investment costs, some steps may seem simple, such as comparing costs on Morningstar. Others are more challenging. Conducting deep research on fund manager performance and client-care metrics, assessing current academic insights, and maintaining a tax-efficient portfolio can prove daunting. It pays to have an experienced guide by your side.

We also help you stick to your sensible, long-term strategy. Evidence tells us investors who go it alone tend to underperform the very securities in which they're invested. The tendency to succumb to hyperactive and ill-timed trading leads to unnecessary costs. In his November 2013 Wall Street Journal article, "How Investors Leave Billions on the Table," columnist Jason Zweig said, "Over the past five years, Morningstar recently found, investors trailed all their funds by an annual average of 1.17 percentage points."

Knowing the fees you are paying is the first step to controlling the costs of investing. Low cost investments, along with below average advisor fees lets your money work better for you over the long term.

We would like to help you keep you keep your fees at a manageable level so you can maximize your investments. Get in touch for more information on the services we provide.