



Mutual Funds Aren't Dead Yet... Here's How You Can Profit From Them

Description

As exchange traded funds (ETFs) have continued to gain popularity, pundits and investors everywhere have called for the death of mutual funds.

There are many reasons why mutual funds aren't liked. Fees are too high, often coming in at 2-3% of assets under management each year. Depending on the ETF, fees for passively managed funds are anywhere from 0.05-0.5%. It's a huge difference, and that difference in fees can easily add up to tens of thousands of dollars over an investor's lifetime. There's little evidence the extra fees investors pay for mutual funds lead to outperformance. In fact, studies show that, on average, most fund managers underperform the market, mostly because of those pesky management fees.

Investors are also often frustrated by things like deferred sales charges and advisors putting them in funds that ensure the advisor gets paid a handsome trailer fee. Too often advisors are more focused on their own interests than on the client's.

Having said all that, I'm not ready to declare the mutual fund dead just yet. Yes, it'll continue to be a tough business going forward, but there's still a demand for the product. It's just going to take different ways of selling them.

Here at Motley Fool, we do our best to educate individual investors. We give them the tools they need to make decisions on individual stocks. We believe that picking individual stocks isn't that hard, provided investors do their homework beforehand. And while we've made progress educating millions of investors, there's still a huge portion of the population that doesn't believe a word we say.

They liken it competing against the very best in the world. Billionaire investor Warren Buffett is so rich and so successful, they feel they don't have a chance against the Oracle of Omaha. Buffett's performance would crush the average investor's portfolio, as his track record demonstrates.

But as we know, investing isn't like that. Mutual fund managers aren't the equivalent of an NBA superstar. There's no doubt that the average mutual fund manager knows more than the average investor. But that doesn't mean an investor can't outperform that mutual fund manager, especially since the manager's returns are after fees. What we often forget is that most investors don't know it's

possible to manage their own portfolio.

So they go to a company like **IGM Financial** ([TSX: IGM](#)) and its army of Investor's Group investment advisors. The advisor quickly figures out the investor is uneducated and a little scared, and reassures them. The advisor creates an investment plan, often using some high-fee mutual funds, and takes the opportunity to cross sell other financial products. The investor is happy to pay for the full service Investor's Group provides.

CI Financial ([TSX: CIX](#)) has more than 750 different Assante Wealth financial planners helping Canadians in all aspects of their finances. Assante Wealth saw assets under management grow 10% year over year in 2013. CI also manages money for institutional investors, which is about 20% of assets under management. While the majority of the company's revenue is still derived from its family of mutual funds, it's still important that it has a sales force dedicated to selling those funds to individual investors.

If you compare that to the business model of **AGF Financial** ([TSX: AGF.B](#)), the difference is huge. AGF's sales staff is dedicated to convincing investment advisors its mutual funds are better than all the others. It doesn't have clueless investors begging for someone to hold their hand. It's much tougher to sell educated investment advisors on the benefits a mutual fund than it is to make the same sell to an individual investor.

Foolish bottom line

As the old adage goes, investments aren't bought, they're sold. Mutual funds are largely sold to investors who don't see the need or have the desire to learn about how the stock market works. Educated investors can scoff at mutual funds and their negative features, but that doesn't mean they don't have a role in the market. Companies that know how to sell mutual funds still have a huge number of potential customers. That's not about to change any time soon.

CATEGORY

1. Investing

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1. TSX:AGF.B (AGF Management Limited)
2. TSX:CIX (CI Financial)
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