Skip the Mutual Fund Fees; Buy These Stocks Instead

Description

There has been a lot of attention placed on mutual fund fees in recent years, but of course one also has to look at what you're paying for. What exactly are these funds holding?

The following chart shows the top three holdings for the Canadian equity funds at Canada's big 5 banks. Do you notice any patterns?

Fund	**Top Holding**	**Second Holding**	**Third Holding**
RBC Canadian Equity Fund	Royal Bank	TD Bank	Bank of Nova Scotia
TD Canadian Equity Fund	Royal Bank	Bank of Nova Scotia	TD Bank
Scotia Canadian Blue Chip Fund	TD Bank	Royal Bank	CN Rail
BMO Canadian Equity Fund	TD Bank	Bank of Nova Scotia	CN Rail
CIBC Canadian Equity Fund	TD Bank	Royal Bank	Bank of Nova Scotia

What are the odds?

Amazingly, only four companies – **Royal Bank** (TSX: RY)(NYSE: RY), **TD Bank** (TSX: TD)(NYSE: TD), **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS), and **Canadian National Rail** (TSX: CNR)(NYSE: CNI) – can be found among the top three holdings of these funds. TD earns the distinction of being a top three holding in every one of the funds. Do these fund managers all see eye to eye, or is something else going on?

Closet indexing

These four companies are also among the largest companies in Canada. In fact, they make up four out of the top five spots on the **S&P/TSX Composite** index. And that's why they are in these funds as well. Because as long as the funds don't stray too far from the index, there's no chance of them underperforming either.

The problem is that these funds charge an average fee of 2.24% per year. This fee is really only worth paying if it comes with excellent financial advice from an advisor. But if you're investing on your own, there are other options.

One simple option would be for you to buy an ETF. Both the **iShares S&P/TSX Capped Composite Index ETF** (TSX: XIC) and **BMO S&P/TSX Capped Composite Index** (TSX: ZCN) have reduced their fees to a minuscule 0.05% per year, certainly a lot better than the mutual funds.

Of course another option is to buy these individual stocks. After all, to be fair to the funds, the companies are all very profitable and well-run. They make a great foundation for any portfolio.

Foolish bottom line

When investing, it never hurts to see what others are doing. And when equity funds like these are all doing something similar, it's worth taking notice. By copying their strategy, you can mirror their performance without paying those pesky fees.

CATEGORY

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