The 1 Little-Known Factor That Can Make or Break Your Retirement

Description

Two neighbors are saving for retirement. Both save the same amount of money. Both invest in the same stocks.

About 30 years later, one has a healthy nest egg. He’s looking forward to spending his golden years traveling the world, taking up new hobbies, and giving back to others.

His neighbor, on the other hand, is disappointed. His returns fell well short of expectations. Now he’s forced to work for a few more years than originally planned.

What made the difference? High fees.

The dirty little secret mutual fund companies don’t want you to know

We all know that high fees will eat away at our wealth. But few people fully grasp the impact that these costs could have on their retirement.

According to *Morningstar*, the typical Canadian mutual fund investor pays between 2.0% and 2.5% of assets under management in fees each year.

Now 2.5% might not sound like a lot. But as anyone who understands compound growth knows, even small changes in your return can add up to big money over time.

To see what I’m talking about, take a look at the chart below.

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The graph plots the returns of three people who invested $100,000 over 30 years but with different fee structures. As you can see, someone paying 0.05% in annual expenses ended up with 74% more money than someone paying 2% per year.

So how do you cut down on costs? The trick here is to avoid actively managed mutual funds — the type of funds that try to beat the market by picking which stocks to buy and sell.

All that research and trading pumps up the fees you’re paying. And generally speaking, you’re not getting much for your money.

According to *Fundata.com*, 86% of mutual funds with a 10-year history underperformed the market between 2003 and 2013. This doesn’t even include poor performing funds that closed up shop during this period.

In other words, you had a barely better than a 1 in 10 chance of outperforming the market at best…and you paid big fees to do it.

What can be done?

That's why the first thing you need to do is figure out what sorts of mutual funds you hold. Ask your advisor where to find information on the fees you're paying to own these funds. If you discover you're in a high-cost, low-quality mutual fund, consider a low-cost index fund or exchange traded fund (ETF) instead.

I personally invest in the iShares family of ETFs. The firm offers funds that cost between 0.05% and 0.55% per year "all in."

The low-cost **iShares S&P/TSX Capped Composite Index** (TSX:XIC) is one of the company's biggest and most popular funds. The ETF provides broad exposure to the Canadian stock market. However, with an expense ratio of just 0.05%, it's an absolute bargain compared to mutual funds.

Here's what you need to do…

Getting this right could mean the difference between a nice retirement for you or a new Porsche for your financial advisor.

Check your RRSP and check your TFSA. If you own expensive, underperforming mutual funds, don't wait. Make the change today. The long-term effect of cutting just 1% per year in fees is huge.

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TICKERS GLOBAL

1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

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