



Retirees: 3 Signs a Mutual Fund Will Wreck Your Retirement

Description

If you're like most retirees, you're probably looking for ways to invest your money. By investing wisely, you can build up a steady income stream that keeps you afloat when you're no longer working.

If you don't have a generous employer-sponsored pension, it's virtually essential that you invest: CPP and OAS only pay \$1,300 a month *combined* (on average), so you'll need investments to cover your expenses. However, you get can yourself in a *lot* of trouble when choosing *what* to invest in.

If you don't have a lot of financial expertise, you'll likely speak with a financial advisor for advice on investing your money. The problem is that many of these advisors are actually paid salespeople whose job it is to sell you mutual funds—some of which have very high fees. Bank-offered mutual funds aren't necessarily bad, but you can get in trouble by picking the wrong one.

Not only might the fund's holdings under-perform, but you could also end up paying out exorbitant annual fees. To help you avoid that fate, here are three mutual fund warning signs to look out for.

“Star” managers

It's very common for mutual fund companies to advertise using their fund's manager as a selling point. They may say things like, “*Invest with John Doe, a market-beating track record.*” The problem is that this implies that the fund is actively managed, which in turn implies high fees.

Studies show that most fund managers can't beat the market even before fees, let alone after they've been taken out. So look skeptically at any claim that a fund is managed by a “superstar.” For every one Peter Lynch out there, there's a million under-performers.

Hidden fees

Another “warning sign” you have to look out for is one that may be hidden from sight: [management fees](#). The most common fee that mutual funds quote you is management expense ratio (MER). This

includes most of fees you'll pay, but not necessarily all of them.

However, it may not include transaction fees on buying and selling stocks. To find extra fees that a fund may be hiding from you, check "additional information" in the fund's prospectus. This should include all the costs associated with running the fund.

Fund changes

One of the most insidious things that can happen to a mutual fund investor is for a previously good fund to make changes that hurt its performance, which can include changing managers, bringing in new fees, or shifting to a different asset allocation. Changes like these can turn a good fund into a dud overnight—and leave you none the wiser.

What to do

If you're concerned about getting burned by mutual funds, one of the best things you can do is invest in passively managed ETFs like the **iShares S&P/TSX 60 Index Fund** ([TSX:XIU](#)). These funds don't have high paid managers, so they avoid the crippling fees that make most mutual funds losing bets. They also track major market indices, so they give you "average" returns by definition.

If you look at XIU, for example, it tracks the **TSX 60**—the largest 60 publicly traded Canadian companies by market cap. That means that its returns are the TSX 60's returns [minus a small \(0.18%\) fee](#). That 0.18% fee is small enough that you won't notice it, so for all intents and purposes, you can say you're getting the same return as the TSX 60.

On the topic of fees, it's true that even passively managed funds have fees. However, they usually come in at less than 1% of the fund's net asset value (NAV). As mentioned, with XIU, you'll pay a paltry 0.18% of NAV, and there are other funds that have far lower fees than that!

By investing in low fee, passively managed funds, you avoid having your returns chipped into by under-performing managers. It's one of the best way to save money when investing for retirement.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks

Date

2025/08/26

Date Created

2020/03/20

Author

andrewbutton

default watermark

default watermark