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Our Lifestyle's Financial Expert

All together now: 'Costs really matter.'

The late, great Jack Bogle – the founder of Vanguard and the grandfather of index investing – left us all with a simple mantra that he repeated almost every time he wrote an article or gave an interview: 'costs matter'.

In day-to-day life, we tend to make a connection – largely correctly – that you get what you pay for. If you need a good lawyer, it will probably cost you. If you want the paint to last on your windows, employ a decorator who costs more because they will spend more time prepping the surfaces and uses better quality products. Buy cheap, buy twice!

Yet when it comes to investing, broadly speaking, the exact opposite applies. The more you pay in ongoing charges to invest in a fund, means, on average, there is less money left to put in your pocket.

It would be easy to select a good fund if all you had to do was pick the most expensive manager but this might set you back significantly more than 1% a year. If you reverse that strategy and pick the cheapest fund, it is likely (although never guaranteed) to be a better option.

To find out how much more money you would have with a lower cost strategy over different time frames¹ Albion Consulting assumed that

both sets of managers (index and non-index) capture the same market returns before costs – a reasonable position to take, in aggregate, as winners and losers have to net out to zero – and calculated the differential wealth outcomes over time between the less costly index funds and the more costly non-index funds. The seemingly small difference of 0.85% makes a huge difference to what an investor's retirement might look like. At the end of 40 years – not an unreasonable investing horizon – if the high-cost strategy ended up with £1 million, the lower cost strategy would have £410,000 more to spend, all else equal. A staggering difference - I know which I'd rather have!

As investors we should not lose sight of the fact that we put up 100% of the capital and take 100% of the risk of doing so. Surely, we deserve to pocket the bulk of the returns on offer.

Out of interest when did you last check what your charges are?... 'costs really matter!'

If you are interested in knowing more about how I work, our low-cost investment philosophy and you have investments of over £100,000 why not give Jo a ring on **01562 745730** to arrange a no obligation 30-minute free meeting in our offices.

¹ This uses Nobel Laureate William Sharpe's Total Wealth Ratio calculation

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- Want to leave a legacy for your children and grandchildren?
- Want to know how much you need to be able to retire securely, maintaining a good standard of living?



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