Nine Astonishing Secrets Destroying Your Wealth

ô Secrets you probably never heard or thought ofô

The media calls one of these secrets,
õA (financial) time bomb for millions of retirees ô amounting to billions of lost income.ö

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Nine Astonishing Secrets that are Destroying your Future Financial Security

—Secrets you probably never heard or thought of—

1. Hidden fees in your 401(k)øs and 403(b)øs are costing you thousands
2. A given dollar and a stolen dollarô and how you feel
3. The compounding effect of unknown losses over time
4. The manipulation of the meaning õaverage rate of returnö
5. What your broker doesnøt want you to know
6. Hidden troubles in Mutual Fundøs
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10. Bonus: Your path to õgeniusö thinking. How you do it.

1. The hidden fees in your 401(k) or 403(b) are costing you thousands. The biggest problem you face is õbelievingö there are no hidden fees. After allô you canøt see any fees in the reports can you? If no fees are reported, then there must be no feesô right? If you believe that, you are wrong.

The media calls the hidden fees õA (financial) time bomb for millions of retireesô amounting to billions of lost income.ö Every year that goes by the losses get larger and larger and larger. Your eventual losses could be $10,000, $100,000, $500,000 and more. And no one told you?

This isnøt news that is hidden in a closet somewhere. The news has appeared oní

- Fox News,
- Forbes,
- Consumer Reports,
- SmartMoney,
- CFO,
- National Association of Securities Dealers,
- Los Angeles Times,
- The U.S. Department of Labor.
- MorningStar

Lexington resident Roberta B. read about it, but she didnøt believe it at first. How could hidden fees be possible? No one else had mentioned the problem to her before, not even her close friends. Her plan administrator where she worked for 25 years never told her either. But the headline in the newspaper shouted out the truth. The hidden fees were silently, stealthily taking more and more of her earnings year after yearô and she didnøt even know it. **Roberta lost 5 years salary from Hidden Fees in her 401(k).**

- With her 401(k) holding her money, the following example shows the 30 year losses:
- Assuming no fees and earning 7 percent, her $100,000 grew to $766,100

- With hidden fees of 2 percent, her 100,000 grew to $574,350
- **That's a $191,750 loss! —5 years— of Roberta's hard earned income!**

Roberta learned how to eliminate the nasty hidden fees and you can too. She is increasing her gains, and she now enjoys more income.

Robertaøs friend Lucy didnøt check things out. It took Lucy exactly one minute to snicker while she thought to herselfí

õThere are *no* fees in *my* 401(k).ö

Lucy lost 5 years of salary in those 60 seconds of doubt!

The 401(k) and 403(b) scandal is real. The national media call it, "A disaster in the making," and "A (financial) time bomb for millions of retirees."

One of the most respected news sources is called MorningStar**.** Sophisticated investors turn to MorningStar for financial news. This is what MorningStar has to say about the 401(k) and 403(b) scandal.

MorningStarô õThe Defined Contribution Plan: A Disaster in the Makingö As I write this in the spring of 2002, the Enron debacle has been front-page news. In the long run, Enron has created a convenient smoke screen for a powerful force, **which in years to come will destroy billions of dollars in 401(k) and 403(b) participant wealth**.

What are the costs that 401(k)/403(b) participants bear? According to the Investment Company Institute, direct costs are 1.6% (expense ratio). The average portfolio turnover for actively managed funds is now 100%. As a result of hyperactive trading, there is 0.8% of additional, unseen but certainly felt, trading costs. Add to this the fact that most funds are rarely fully invested, but time the market, by holding cash. I am not finished yet! They also incur õmarketing impact costsö. This occurs when large block trades move the market up (when buying), and down when selling. If you are in a 403(b) (variable annuity) plan, there are mortality and expense charges as high as 1%. In a straight 401(k) plan there may be additional asset based charges imposed by the plan sponsor. I have not even mentioned direct out of pocket fees! **If I err in saying that the average 401(k)/403(b) plan participant incurs asset based charges of 2.5%, then the actual charges are almost certain to be higher than lower."**

During the raging bull market that began in the 1980øs these outrageous fees were partly hidden by large gains in stock market appreciation. From 1984 to the end of 2000 the S&P 500 provided an annual return of 16.3 percent. The average fund returned 13.1 percent (trailing the S&P 500 by the above mentioned expenses). The return for the average mutual fund investor was only 5.3%!! Source: Fidelity.

ô end MorningStar Quote

What important nuggets can we see from this? 1) MorningStar is saying, õWhen *all costs* are included they are almost certain to be higher than 2.5 percent per year.ö 2) Typical õMutual fund performanceö is significantly lower than õmarket performance.ö 3) People typically get a far lower return than they think they are getting. 4) Hidden fees create huge losses over timeô which we will show in this report.

Los Angeles Timesô Fees Eat Away at Employeesø401(k) Nest Eggs. With pension plans vanishing, workers depend more than ever on these accounts. Yet obscure deductions are quietly eroding their savings. Some of the biggest names in insurance peddle lousy retirement plans with high fees and low returns. One and a half million teachers blithely signed up for these dogsô often with their unionøs blessing. Unknown to many (employees and ex-employees) obscure fees and deduction are quietly eroding the value of their nest eggs. Mutual Fund management fees are the biggest expense. Administrative fees are another matter. They usually donøt show up on quarterly or annual statements. Brochures touting the benefits of 401(k) investing rarely mention them. Workers who save conscientiously suffer a disproportionate hit because fees are typically taken as a percentage of their account balances. Someone with $100,000 pays 10 times as much as a co-worker with $10,000, even thought it costs about the same to administer the two accounts. õPeople can be paying thousands of dollars in fees if theyøve been in their 401(k) plans for years,ö said John Turner a senior policy advisor at the AARP Public Policy Institute. õThey can be paying thousands of dollars more than they need to be payingö The Fee is all but invisible. In the early days, employers picked up most of the administrative costs of the plans. That changed as mutual fund companies and insurers sought a larger share of 401(k) business. In 1988, 87 percent of U.S. employers paid all 401(k) administrative costs. Today only about 25 percent do.

About Mutual Fundsô 12b-1 fees are one of the darkest secrets in the Mutual Fund Industry. It allows a Mutual Fund to pay distribution and marketing expenses out of the funds assets. In theory, the 12b-1 fee was supposed to help investors. By marketing a mutual fund, the funds assets should increase and assets should provide better economies of scale providing investors with lower annual operational expenses. This has yet to be seen. 12b-1 fees have been used as a hidden way to pay brokers for using the fund. The 12b-1 fee can be used as a hidden load. Often times a fund will have multiple classes (or versions) of a fund. For example, a class A share might charge you 3 percent up front and a Class B share will only charge you if you sell it in the first few years. The sneaky part is that the Class B version carries a 12b-1 fee and over the long run depletes your returns more than the Class A version. This hidden fee is a great way for a broker to sell a 401(k) plan to an employer, appearing as if there are no load fees.

CFOô Hidden costs and high fees eat into 401(k) plan benefits. Although from the mutual fund fallout from the Mutual Fund trading scandals still dominates the headlines, some companies with 401(k) plans reserve their greatest ire for another issue: fees. Regarding reducing feesô the benefits can be enormous. A worker who socks away $10,000 per year for 30 years and nets 8 percent annually could retire with an additional $109,000 if her plan found a way to pay 50 basis points less in operating expenses.

Consumer Reportsô Hidden 401(k) costs. When it comes to your 401(k), you probably donøt think about fees. After all, your employer foots the bill, right? Wrong. Employees typically paid Mutual Fund expenses, but now more are shouldering administrative expenses, which employers used to pay. Fees can determine whether your nest egg looks like an ostrichøs or a sparrowøs. The fees are not always visible. Typically a broker will set up a companyøs plan at no charge, bundling fees for administering the account with Mutual Fund expenses. The broker stuffs the plan with higher cost share classes, which drain money from employeesøaccounts. õIn essence the company shifts the costs of administering the plan directly to the employees.ö

Forbesô 401(k)s in the crosshairs. Schlichter says not only that the 401(k) fees are excessive, but also that certain indirect fees are hidden in the plan structures. õWhen you canøt tell what the fees are, you canøt judge whether they are excessive or what return there has been before deduction of fees,ö he says.

Fox Newsô Somebodyøs been dipping into your 401(k) plan without your knowledge. Hidden management commissions, obscure enough that few employees can even find them, are a growing problem inside the universe of company sponsored retirement plansí But rather than deduct that annual fee in cashô which would appear as an easy-to-read line item on your annual statementô they often take their cut in mutual fund shares, sometimes quarterly installments, making the transaction almost impossible to locate since most plans invest contributions and reinvest dividends as they come in.

U.S. Department of Laborô Fees and expenses are one of the factors that will affect your investment returns and will impact you retirement income. The cumulative effect of the fees and expenses on your retirement savings can be substantial. By far the largest component of 401(k) plan fees and expenses is associated with managing plan investments. You should pay attention to these fees. Apart from fees charged for administration of the plan itself, there are three basic types of fees that may be charged in connection with investment alternatives in a 401(k) plan.

- **Sales Charges** (also known as loads or commissions). These are basically transaction cost for the buying and selling of shares.
- **Management fees** (also known as investment advisory fee or account maintenance fees). These are ongoing charges for managing the assets of the investment fund.
- **Other fees**. This category covers services, such as record keeping, furnishing statements, toll free numbers and investment advice.
- **Mutual Fund fees**ô assessed sales charges paid when you invest in a fund or own a fund.

SmartMoneyô Things Your 401(k) Provider Wonøt Tell You: õWeøre making a mint on your 401(k)ô even if your not.ö õYou are buying wholesale, but weøre charging you retail.ö õNo one in his right mind would buy these fundsô given a choice.ö õIt makes a case for consolidating your various 401(k)sí Consider an IRA rollover.ö õYou want to see some outrageous fees? Try a Variable Annuity 401(k).ö õ403(b) plans, which are geared to teachers, professors and employees of nonprofit organizationsí itøs also an expensive one.ö

If you want help to eliminate your fees and significantly increase your future retirement income, call the Phillip Roy Financial Lexington office at (859) 221-2399 or (800) 605-5096.

2. A given dollar and a stolen dollar—and how you feel.

- If you lose a dollar today, it hurts a little.
- If you lose a dollar today <u>without knowing</u>, it doesnøt hurt at all.
- If you lose a dollar today, <u>that was stolen</u>ô *it really hurts a lot*!

Few things hurt worse than being violated, stolen from, and gouged! óEspecially when you donøt even know it is happeningô and you find out later! If someone asked you for a dollar, you would probably give it to him. If he simply stole it from you without asking, your reaction would be completely different. For some, it would be anger.

Here is the reality. People with 401(k) and 403(b) accounts are being gouged and they donøt even know it! If it bothers you to think about someone stealing a dollar from you, what if someone steals $1,000 from youô every year? What about even higher amounts like $10,000ô a year? Hidden fees are draining the pockets of the unsuspecting. It is creating a scandal as big as or bigger than the Enron Scandal. The national news has much to say.

FoxNewsô But a more insidious form of surcharge is also being levied and employers don't mind because it's the worker that pays these extra fees.

Plan providers can be mutual fund companies or private specialists and some charge each contributor a commission on his or her retirement account in addition to the cost of investing in a particular mutual fund offered through the plan.

But rather than deduct that annual fee in cash -- which would appear as an easy-to-read line item on your annual statement -- they often take their cut in mutual fund shares, sometimes in quarterly installments, making the transaction almost impossible to locate since most plans invest contributions and reinvest dividends as they come in.

USAToday—401(k) fees can chomp a hole in your savings. **Investment expenses** ô These are, by far, the biggest expense workers face in retirement plans; they make up as much as 80% of a 401(k) plan's total cost. **Administrative fees**ô for online account access, educational seminars on investing and other servicesô are often tacked onto fund-management fees and deducted from fund assets in a 401(k) plan. Employers aren't required to provide you with written information about what portion of a fund's expense ratio comes from administrative fees. Few employees question fees. That's a key reason employees are increasingly bearing more of the administrative expenses in 401(k) plans, according to Pamela Hess, director of retirement research for Hewitt Associates. Hewitt's research shows that, in the past few years, more employers have shifted the cost of plan mailings, educational seminars, investment advice, and even retirement-plan design to employees.

Consumer Reportsô When it comes to your 401(k), you probably donøt think about fees. After all, your employer foots the bill, right? Wrong. Employees typically paid mutual-fund expenses, but now more are shouldering administrative expenses, which employers used to pay. Depending on their size, fees can determine whether your nest egg looks like an ostrichøs or a sparrowøs. The fees are not always visible. Typically a broker will set up a companyøs plan at no charge, bundling fees for administering the account with mutual-fund expenses. The broker stuffs the plan with higher-cost share classes, which drain money from employeesø accounts. õIn essence the company shifts the costs of administering the plan directly to the employees,ö explained Don Phillips, managing director of Morningstar, the Chicago-based mutual-fund research company.

AARP—Many Americans consciously ignore their 401(k) accounts in the same manner that they may ignore necessary maintenance to their cars. as more employers opt to cut costs and discontinue traditional pension plans, the 401(k) will become for many Americans, along with Social Security, their chief source of retirement income. And the shift of responsibility from employer to employees has left many angry, challenged and scurrying.

Worchester Telegram Businessô Overcharges Top 100 percent or more. Steve Lansing has found that the service providers of many 401(k)-like plans overcharge participants and employers, some by 100 percent or more. Calling the fees õthe big secret of the retirement industry,ö the suits claim that

employees had no knowledge of the õexcessive and unreasonable feesö or how much these costs were diminishing their retirement funds.

Forbesô It's been simmering (undisclosed fees) since 1997, when the Department of Labor held a public hearing on whether employers and participants were adequately informed about 401(k) fees and expenses. A report that followed, "Study of 401(k) Plan Fees and Expenses," decried a lack of information about costs. Schlichter says not only that the 401(k) fees are excessive, but also that certain indirect fees are hidden in the plan structures. "When you can't tell what the fees are, you can't judge whether they are excessive, or what return there has been before deduction of fees," he says.

There are more quotes from the national news available. But I think you get the point. Fees are being taken without your knowledge from your 401(k)/403(b)ô year after year. If you feel troubled and angry you are normal. Thousands of others have felt the same way, they learned what to do and they eliminated the fees. You can too.

Consider auditing your 401(k)/403(b) through Phillip Roy Financial for free by calling the local Lexington office at (859) 221-2399 or (800) 605-5096.

3. The compounding effect of unknown losses over time. When you lose a dollar, you donøt lose just a dollar. You lose what that dollar could have earned for you had you not lost it in the first place. People call me telling me they lost hundreds of thousands of dollars in the market because their stock broker didnøt install protections from loss. Each dollar matters because every financial loss is lost one dollar at a time.

Invested dollars grow over time. If allowed to compound, $1 will grow to $5 or $10 dollars later simply because of compound interest. That means when you lose $1 dollar now, you have really lost $5 or $10ô money you and your family could have used.

A major key to wealth, is finding those dollars that are being lost. If you eliminate losses, you are guaranteed to have better results. It is a foundational principle of the super wealthy. It is an action of õclarity.ö All you have to do is find out the difference between where you are now and where you can be. The information is there. We simply need to get it.

People are often paying hidden fees of $1,000 to $10,000 per year or more. What is not known is how much YOU are paying or losing each year.

That is the first action you must takeô know where you are. Jack Welch, one of the most brilliant CEOs of the 20th century that lead General Electric to become one of the worldøs top corporations would gather his people together in a room. Every meeting would start out with the question, õWhat is the reality?ö Continual discovery of õwhere the company actually wasö turned out to be his õgeniusö for constant improvement and remarkable accomplishment. He determined what the facts really were, rather than what he assumed they would be. The same õgeniusö can benefit you.

You can liberate your own õgeniusö by exposing the truth of where you are vs. where you can be by calling (859) 221-2399 or (800) 605-5096.

4. The manipulation of the meaning "average rate of return." The meaning can be the complete opposite of what you would think. Anyone can guarantee you an average of 25 percent return on your

money. It sounds really nice doesnøt it? õFund X has averaged an annual rate of 25% per year.ö Letøs go through the numbers.

$100,000 invested. Fund X earns 50 percent interest first year. Grows to $150,000

$150,000 invested. Fund X loses 50 percent interest second year. Account now $75,000

Two years of returns. Gain of 50 percent, loss of 50 percent. $50 \div 2 = 25$. Results: the average return is 25 percent.

As you can see, the average return of 25 percent did not create a profit, but a loss of $25,000. It is a striking example where a statement can mean something entirely different than what is understood. Many believe a 25 percent average means an average increase per year and many unfortunately invest based on faulty premises.

If you feel you want to õincrease your returnsö then call locally (859) 221-2399 or (800) 605-5096.

5. What your broker doesn't want you to know. Those with securities such as stocks and mutual funds should consider reading the blockbuster book, õBlood on the Street,öí The Sensational Inside Story of How Wall Street Analysts Duped a Generation of Investors. It is a õriveting account of the Wall street scam in which ordinary investors lost literally billions of dollarsô in many cases their life savingsô in one of the greatest deceptions ever. It relates how hundreds of millions of dollars in illicit profits were made during the booming 1990øs as a result of research analysts issuing positive stock ratings on companies that kicked back positive stock ratings on companies.ö

Major brokerage firms have pushed specific mutual funds because the mutual funds have kicked back money in õrevenue sharingö deals. What that means is, that instead of guiding people to better performing accounts, the brokerage houses force their stock brokers to offer higher commission accounts that provide added revenue to the firm.

According to a recent study by the Zero Alpha Group: õ44 Percent of Real Cost Of Investing In U.S. Mutual Funds Hidden From Investors. Washington D.C. U.S. investors in equity mutual funds are paying $17.3 billion in hidden mutual fund trading cost that are not reported openly in the stated expense ratios of mutual fundsí the ZAG study looks at more than 5,000 domestic equity funds and finds that trading costs were, on average, 43.4 percent as large as reported mutual fund expense ratiosí The study finds that 43 percent of the funds expenses are omitted from their expense ratios and that the transaction cost of some funds exceeded 400 percent of their expense ratios.ö

The St. Petersburg Timesô Congress Finds Hidden Fees for Mutual Funds. õWashingtonô Fees paid by investors in mutual funds are rising despite intense competition in the $6-trillion industry, and some fees are hidden so that itøs difficult to compare fundsí While investors have become aware of some fund fees such as sales loads, other fees õare hidden or opaque, escaping the attention of even savvy fund investorsí An inspection õsweepö of 43 brokerage companies from November through January by the SEC, the New York Stock Exchange and the National Association of Securities Dealers, the industryøs self-policing body, found that most companiesô apparently inadvertentlyô failed to provide the required discounts in at least some instances.

CNNMoneyô More of the dollars youøve invested in Mutual Funds are being squandered than you ever dreamedí One is directed brokerage, in which a mutual fund company agrees to do a certain volume of trades with a given brokerage if that firm agrees to distribute its funds. Another revenue sharing, in which a fund company pays brokers part of its own profits to push its funds to investorsí Trading costs can easily double the annual expense of a Mutual Fund. õRight now the average annual expense ratio for a mutual fund is about 1.3 percent, but when you add up trading costs and all the other fees, you can get up to 3 percent in annual costs,ö says Gary Gensler former Undersecretary for the U.S. Treasury. Donøt think 3 percent a year is a big deal? Well, since 1982, thatøs how much the average equity fund has lagged behind the S&P stock index. Translation: **$10,000 invested in the average equity fund 20 years ago is now worth $56,765 vs. $105,250 if it had been invested in the stock market."**

Folks. Take a look at those numbers. $56,765 is about half of $105,250 isnøt it? When people invest, they want to beat the market donøt they? Investing in Mutual Funds is causing them to lose enormouslyô true? This is an important secret to discover isnøt it?

CNNMoneyô continued. Soft Dollarsô hereøs how they work. Say a Mutual Fund company decides it wants 30 bloomberg terminals at a cost of $1,500 a month, or $45,000 annually, but doesnøt want to pay for them from its own pocket. So it arranges for the broker to pay the fund companyøs monthly subscription costs. In exchange, the fund company spends, say $67,500 in trading commissions by the end of the year. Amazing as it may seem, thatøs perfectly legal. The Bloomberg terminals are construed as õresearch and other servicesö provided by the brokerage firm. Those other services can be phone bills racked up by the Mutual Fund company, software and computers, subscriptions to financial publications and lawyersø fees. Itøs a neat way for fund companies to maintain their own profits at shareholder expense: Since the expenses are accounted for as part of the fundøs commissions, the spending sprees come out of the fundøs assets but donøt show up in its reported expense ratios in the prospectusí Thanks to powerful industry lobbying, thereøs little chance soft dollars will disappear anytime soon.

The Motley Foolô With Mutual Fund fees including such items as front-loads, back-loads, contingent-deferred sales-loads, 12b-1 fees, management fees, annual expense ratios, etc., how likely is everybody to understand all of the cost of mutual fund ownership? Not veryô and thatøs something that the Mutual Fund industry has been playing off of, and profiting from, for a very long timeí **The sad truth of the matter is that the vast majority of mutual funds underperform the average return of the stock market. Over time, because of their costs, approximately 80% of Mutual Funds will underperform the stock market's returns…On the whole, the average mutual fund returns approximately 2 percent less per year to its shareholders than does the stock market in general.** The stock marketøs historical returns are roughly 11 percent per year, but managed mutual fund shareholders as a group can expect to see any return reduced by the approximate cost by the fundsí Almost all actively managed equity Mutual Funds over time lose to the market averages. And those funds that do beat the marketøs return typically do so for only a very short period of time, and then quickly reverse courseí Mutual Funds charge fees. Huge fees. Outrageous fees. As a group (though there are certainly individual exceptions) managed mutual funds appear to charge the highest fees they can get away with, and they charge these fees in the most confusing manner possible.

A Mutual Fund's *expense ratio* is the most important fee to understand. The expense ratio is made up of the following:

- The **investment advisory fee** or management fee is the money used to pay the manager(s) of the mutual fund. On average, this fee is about 0.5 percent to 1.0 percent annually.

- **Administrative costs** are the costs of recordkeeping, mailing, maintaining a customer service line, etc. Fees range from 0.2 percent to 0.4 percent.

- Surely the fee that you as a Mutual Fund investor should be most outraged by is the **12b-l distribution fee**. This fee ranges from 0.25 percent of a fundøs assets all the way up to 1.0 percent of the funds assets. This fee is spent on marketing, advertising and distribution services.

Again, the most important question that you should always determine about your mutual fund is, õHow high is the *expense ratio*?ö And remember, for actively managed funds, the average number is about 1.5 percent.

A Mutual Fundøs **Loads.** õLoadö refers to the sales charge many funds use to compensate the broker for his or her õservicesö in selling the fund to an investor, and this is in addition to the annual expenses discussed above.

MSNBCô Some fees really pay for bribes. What do you really pay for your mutual fund? Even if you tried to find out, you couldnøt do it. Sales charges and fees are disclosed in the first pages of the fundøs prospectus. But no one can tally the real cost because so many other charges are hidden from your eyeô costs that can more than double what the prospectus says you pay. õAö shares carry an upfront sales charge (or load), generally ranging up to 5.75%. If you have at least $25,000 or $50,000 to invest, you get a discount. õBö shares drop the upfront charge, but pay the brokerøs commission though high annual fees. õCö shares also carry no load but charge fees for many more years than the õBö shares do. Alphabet shares have been widely abused. õBö shares earn brokers more money, so thatøs what they often push, even if õAö shares would have cost you less.

Soft dollars. Many fund managers deliberately overpay for brokerage commissions. In return, they get õfreeö research and other gifts, such as computers and data services. This soft-dollar arrangement keeps their reported expense ratio down but drives your costs up secretly.

Revenue sharing. Brokers and planners arenøt content with merely collecting sales fees. They also want part of the revenue that would normally go to the fund-management group. Basically itøs a bribe. The brokers are paid to sell trusting customers on certain funds. Another type of bribe called õdirected brokerageö uses your money to reward brokers, who push sales the most. (And you thought your õfinancial counselorö had your best interests at heart when picking funds. *Cough choke.*)

Bostonô Mutual Fund investors are paying billions of dollars in portfolio trading costs that are hidden from view. Only part of the extra cost (in Mutual Funds) is detectable through publicly available documents, and that is only if you dig into obscure Mutual Fund documents that very few investors know anything about.

CNNMoneyô 13 of 15 firms appear to have favored the sale of the revenue sharing funds by providing increased access and visibility in the broker-dealerøs sales networks.

CNNMoneyô First, Bogle says fund managers now trade in and out of stocks way too much. õWe used to be in the business of long-term investing, and now weøre in the business of short-term speculation.ö Average annual portfolio turnover of equity mutual funds is more than 100% now.

Second, õWeøve moved to making fund choice extremely difficult. Instead of big diversified funds that offer investors a cheap, relatively safe entrée into the market, the industry has come to focus on risky specialized funds that tend to get great returns for a few years and then crash.

Third, most funds are now run not by investment committees but by individual managers who are marketed to investors as õstars.ö Grumbles Bogle: õTheyøre not stars by commets.ö And in fact the tendency of fund managers to underperform the market averages like the S&P has only grown more pronounced over the decades.

Finally, and most dismayingly, the fees that mutual fund companies charge their investors have risen steadily, from an industry average of about 0.75 percent of assets each year back in the 1950øs to almost 1.6 percent now. From 1984 through the end of 2001, when the S&P advanced at a compound rate of 14.5 percent and the average equity mutual fund rose 11.5 percent, actual fund investors made just 4.2 percent per year according to financial research firm Dalbar. Given how tough 2002 was for the market, the average investor return since 1984 will probably drop below 3 percent. Thatøs less than the inflation rate over time.

MorningStarô õWith returns corrected by survivorship bias (non-performing mutual funds integrated into existing ones), the average actively managed funds trail the market by about 3 percentage points a year.ö õConsider Money magazineøs annual Mutual Fund Guide where you can find the fifty top-performing funds for the preceding year. Of the fifty top-performing funds in 2000, not a single one appeared on the list in either 1999 or 1998. (Donøt chase performance.) õAs of 9-3-01, the twelve brokerage firms with 5-year performance records average a total cumulative return of 29.6 percent compared to 62.7 percent for the S&P Index.ö õHulbertsø data shows more than 84 percent of newsletters underperform the market over 5-years. Over ten years, that number rises to 90 percent.ö õThe financial services industry spends billions in advertising to keep investors excited about the prospect of better returns around the corner.ö

6. **Hidden troubles in Mutual Funds**. Another useful resource is the book, The Great Mutual Fund Trap, õóan Investment Recovery Planô How Americans Are Losing Billions to the Mutual Fund and Brokerage Industriesô and How You Can Earn More with Less Risk.ö John Bogle, Founder of the Vanguard Group has this to say, õThis wonderful book explodes many of the myths that impoverish Mutual Fund Investors.ö The authors have noteworthy credentials. Gary Gensler was Undersecretary of the Treasury responsible for policies in the areas of U.S. financial markets, debt management, and financial institutions. Gregory Baer was Assistant Secretary for Financial Institutions at the U.S. Treasury Department.

Here is a quote taken from page 61: Clearly, the stakes are large. Yet by any objective measure, mutual funds are failing their millions of devoted clients. Over a five-year period, only about 20 percent of actively managed stock funds perform well enough to earn back their fees and loads. Furthermore, five years later, the identity of the fortunate 20 percent will have changed. This point is crucial. It turns out that the government-mandated disclaimer that accompanies every fundøs reported resultsô õpast performance is no guarantee of future resultsöô is absolutely true.

The authors also show funds that outperform for one five-year period are likely to under perform for the next five years (based on *multiple* academic studies or research reports.) The authors also conclude that the long term success of a handful of money managers is nothing more than the law of averages at work. Though this charge may seem radical to those reading it for the first time, this is based on the opinions of many academics schooled in the õefficient-market theory.ö The theory is that stocks are priced right where they should be because of market efficiency. So picking one stock to rise more than another is pure guesswork.

Slateô The vast majority of (Mutual) Funds get paid an aggregate of tens of billions of dollars per year for accomplishing nothing (or worse than nothing). The bigger issue is that active money managementô aka stock-picking, the strategy employed by most fundsô doesnøt usually work. According to study after study, the vast majority of fund managers canøt generate enough extra performance from active trading to offset the cost of their efforts (costs that include salaries, bonuses and fund company profits)This problematic finding doesnøt stop fund companies from collecting huge active-management fees even when performance stinks. **Your odds of picking a market-beating fund are somewhere between one in six and one in 30 (roulette-like): the fund industry's chance of collecting big fees, meanwhile is 100 percent.**

The Motley Foolô The last time we checked, there were more than 8,000 mutual funds from which to choose. And thereøs no shortage of bold-faced statements touting them. Advertisements in newspapers flaunt a fundøs õfive-starö status. Banner ads brag about õthe Number One Fund in Americaö and commercials hype õ38.8 percent returns over the last six months.ö The sad fact is that the vast majority of Mutual Funds underperform the average return of the stock market. And they are multiplying as fast as Tribbles on the Enterprise. Itøs not that they pick bad stocks: itøs that they donøt pick stock well enough to compensate for the costs of the funds. Many mutual fund managers have proven no better at picking stocks that the average nonprofessional, but charge fees as though they are.

Investopediaô Have you ever seen an advertisement for a mutual fund that reports a terrible return? Weøve never seen it! Yet is seems impossible for no fund to perform poorly. So what happens to the lemons if the mutual fund industry claims that all its funds are winning? Many fund companies simply fold their bad funds into better performing funds. Survivorship bias occurs when funds with poor performance have been wiped out or made to disappear while strong performers continue to exist, creating skewed statistical data: survivorship bias makes it appear as though the poor performers never existed at all. For example, right after the dotcom crash many high-flying Internet funds had sunk to the point at which they werenøt worth managing. Often companies simply merged their Internet fund into a larger õtechnologyö fund. Not only did the sector funds get watered down, but the past losses were wiped from history as the new funds just treated the merger as an influx of cash. In short, survivorship bias creates an over-estimation of past returns and misleads investors into being over-optimistic of high future returns. Over the period from 1962 to 1993í õby 1993 fully one-third of all mutual funds disappeared.ö When a person buys a new car he or she donøt get to erase all accidents and speeding tickets, so why is it that Mutual Fund Companies virtually get to erase their past mistakes?

YahooFinanceô Why Mutual Funds Are Lousy Long Term Investments (by Robert Kiyosakiô Author of the Book, <u>Rich Dad Poor Dad</u>). The problem with (Mutual) Funds is fees. The longer you invest in a Mutual Fund, the more you pay in feesí when I purchase a Mutual Fund, I pay a sales commission for as long as I own the fund. How much do fund companies make? John Bogle, the founder of the very successful Vanguard Group, shed some light on that. He was asked by an interviewer with the TV program õFrontline,ö õWhat percentage of my net growth is going to fees in a

401(k) plan?ö Bogle replied, õWell itøs awesome. Let me give you a little longer-term example. An individual whoøs 20-years old today (is) starting to accumulate for retirementí .That person has about 45 years to go before retirementô 20 to 65ô and then, if you believe the actuarial tables, another 20 years to go before death mercifully brings his or her life to a close. So thatøs 65 years of investing. If you invest $1,000 at the beginning of that time and earn 8 percent, that $1,000 will growí to around $140,000. Now the financial systemô the Mutual Fund system in this caseô will take about 2.5 percentage points out of that return, so youøll have a net return of 5.5 percent, and your $1,000 will grow to approximately $30,000 to you the investor. Think about that. That means the financial system put up zero percent of the capital and took zero percent of the risk and got almost 80 percent of the return. And you, the investor in this long time period, an investment lifetime, put up 100 percent of the capital, took 100 percent of the risk, and got only a little bit over 20 percent of the return. Thatøs a financial system thatøs failing investors because of those costs of financial advice and brokerage, some hidden, some out in plain sight that investors face today.

7. Hidden troubles in Variable Annuities. If Mutual Fund performance is bad, Variable Annuities are much worse. Suze Orman, was invited to speak to the widows and loved ones of the Firemen who had been killed in the World Trade Center. She was to talk to them about the money they would receive as a result of the terrible tragedy. She wrote, õThey had already suffered enough loss; I didnøt want them to suffer a financial loss, too., So I gave them my õInvestment Hate Listö and made them write it down and repeat it to me out loud: No Variable Annuities, especially in a retirement accountí ö

In one news article in the Los Angeles Times, the author writes, õMelinda Cotton got a nasty surprise this year when she read the annual statement for a Variable Annuity sheød bought in 1977: Half of the annual dividend sheød earned on her account in 2004 had been sucked away by so-called actuarial risk charges. What galled her the most was that those charges had never before shown up on an annual statement, even though the insurance company, she said, promised to disclose how much she was paying in fees.ö

Forbesô õ The Great (Variable) Annuity Rip-off.ö õA Variable Annuity is a mutual fund-type account wrapped in a thin veneer of insurance that renders the investment earnings tax-deferredí It is safe to say that with the vast majority of (Variable) Annuities sold today, almost all the money you are assessed for õmortality and expensesö winds up in either the salesmanøs or the insurance companyøs pocketí (Variable) Annuities are costly to own. Expensesô portfolio management fees, plus that õmortalityö chargeô average a hefty 2.1% a year. Thatøs half again what it costs to own the average mutual fund.

SmartMoneyô õVariable Annuities are sold more aggressively than fake Gucci handbags on the streets of New York Cityí Variable Annuities are notorious for the fees they charge. Indeed, the average annual expense on Variable Annuity subaccounts currently stands at 2.08 percent of assets, according to MorningStar.ö Thatøs $2,080 each year on a $100,000 account!

Here is what happens with two accounts earning 7%

Same Holdings	Brokerage
No fees	Less 2% fee
$100,000	$100,000

Year 5	$140,260	$162,289
Year 10	$196,720	$265,533
Year 20	$386,970	$432,190
Year 30	$766,100	$574,350
Year 40	$1,497,400	$703,900

Notice the increasing losses from an account that is being robbed. Pay special attention to year 40. Notice that column one has twice the money as column twoô

$1,497,400 vs $703,900
A 2 percent fee per year resulted in a $793,500 loss!

Few people have any idea that fees that are being taken from their Mutual Funds and Variable Annuities can have such a dramatic loss over time. Some feel unconcerned because they only want to look at what happens over just one year or two or even five years. Unfortunately, a small loss of say $2,000 for one year is really a loss of $10,000 or $20,000. The loss of a fee year after year creates a financial time bomb! Jack Welchøs genius in action can be appliedô õWhatøs the reality of your situation?ö

But letøs consider this. The brokerage house gets the fee whether they make money for you or not! Does that sound good? When your investments donøt perform, they still get paid! Not only do they take hidden fees when they make you money, they take hidden fees when they lose your money!

8. Hidden troubles of compounding taxes. Few people have considered the long term effects of taxable investments on their money. A Bank CD is a good example of a taxable account. A Bank CD in many cases is insured by the FDIC up to $100,000. Every year, the CD earns taxable interest which is then reported on the personøs tax form. Then they take money from some other place, pay the tax on that interest and the CD grows until the next year. This happens over and over while the CD continues to grow. The larger the CD grows, the more money it makes. The more money it makes, the larger the amount must be declared on the tax form. In a few years, the person is paying more for the taxes each year than he is earning in interest! Over a number of years, the original $100,000 has caused taxes that have totaled $100,000. No wonder the bank will õguaranteeö up to $100,000 on your accountô The IRS is õguaranteedö to get it all anyway!

9. A broad market decline could wipe out your gains. A possible market correction could reduce holdings of stocks, mutual funds, bond funds, etc. People commonly quote, õYou donøt lose any money until you sell. After allô people in the market should look long term.ö While true, people over age 65 have the immediate future to considerô not long term. Newsweek suggests that 66 to 75 year olds should only have 10% of their money at risk in stocks. 76+ should have 0 in stocks. The possibility of loss and the lack of time disallow the risk.

Those are the Nine Astonishing Secrets Destroying Your Wealth. There are certainly more.

What is the first thing you should do? Here is my suggestion: Act like Jack Welch. What would Jack Welch do? He would ask himself, õWhat is the reality?ö Next he would find someone who would do the research for him so he could determine where he was and where he could be.

Knowing the difference is a key to success in everything we do, and it was the major determining factor of success in Jack Welchøs career as a world class CEO of a Fortune 500 empire. The principle is very simple. Know what is õreallyö happening.

10. Bonus: Your path to "Genius" thinking. How you do it.

Many people have been to Keenland Racetrack to watch world class horses and their jockeys thunder down the track. Millions of dollars are bet on the horses that will win the race.

Imagine two identical horses running a race. Thousands are placing their bets in the hopes of choosing the winning horse. At the end of the race, one horse wins. The other horse loses. What no one knows is that hidden inside one of the saddles is a 100 lb weight. No one notices that the heavy saddle is placed on the horse that always loses.

If you were the only person in the world that knew this information, you would win over and over again. That is because you know something other people donøt. The power of knowing õthe realityö is what makes ordinary people extraordinary.

Millions of messages come to every one of us every day. We all chose the messages we believe to be important. Some messages we receive are incredibly important to usô yet we simply ignore them.

Here is one of the most valuable secrets revealed: All of us are õGeniusøs.ö We simply havenøt discovered our own õGenius.ö A recognized genius has simply noticed something important other people havenøt. He has thought about the information in ways few others have. He has thought more deeply about it and discovered conclusions other people simply ignored. The information was there all the time!

How can this discovery of how õgeniusö works help you? It wonøtí unless you use it. The key is putting what you know into practice. When you learn something other people are missing, pay attention to this new informationô just like the super successful. Learn more about it. Explore. Above all, have fun. It is a major key to personal satisfaction in life.

Dr. David McLeland of Harvard University studied the qualities and characteristics of high achievers in our society. What he found was that your choice of a reference group, people with whom you habitually associate is more important in determining your success or failure than any other single factor. As Zig Zigler says, õIf you want to fly with the eagles, you canøt continue to scratch with the turkeys.ö Make it a point to get around the people that you admire, trust and respectô people you wish to be like someday. Associate with the kind of people you look up to, those people you would be proud to introduce your friends and associates to. The choice of a positive, successful reference group can do more to supercharge your financial goals than *any* other single factor.

There are many examples where average people in average jobs getting average results and earning average pay have changed positions and have gone on to work with a highly progressive company. Within a few weeks, that personøs attitude has completely changed. By continued association with optimistic results oriented people, the previously average individual begins to perform at extraordinary levels. This is why virtually every major change in your life will be associated with a change in the people you associate with. At every turning point in your life, there is usually someone standing there

guiding you in one direction or anotherô opening or closing a door for youô or helping you in some way.

The following story illustrates how we sometimes react to new information.

John is driving through the neighborhood and notices smoke spewing from a roof. He jumps out of his car and rings the doorbell. No one comes to the door. He runs around to the back and looks in the basement window. A man sits there reading the paper. John pounds on the window. The man looks up, and thinking itøs a door to door salesman, ignores John and keeps reading the paper. Exasperated because of the danger he knows the man is in, John grabs a chair, flings it through the plate glass window and shouts, õYour house is on fire!ö

What can we learn from this? 1) At first we are unaware. 2) We ignore the signals. 3) We sense the urgency. 4) We react or suffer the consequences later.

Your hidden õgeniusö is actualized by discovering how things really areô not what you assume them to be. Abraham Maslow once wrote that the first quality of a self actualizing person is the ability to be completely honest and objective with himself or herself.

It is the same with you. If you want to achieve a better retirement and enjoy more income, you must be brutally honest with yourself as to where you are financially in these important areas. This simple act will do more to create a satisfying financial future than virtually any other single factor.

You can learn how to explore your hidden financial õgeniusö by

- Reducing your risk
- Reducing your hidden losses
- Increasing your gains
- Reducing your taxes
- Enjoying more income

Consider that things can be better in your life. Your life improves by associating with can-do-people, high achievers, those who believe the future can be brighter.

P.S. Your financial success has more to do with your õreference groupöô the people you associate withô than any other single factor. This is true because the reference group influences the way you think. They give you new insight, new information others only dream of. õHow you chose to thinkö is *the* major factor in discovering your õgenius.ö