

To Your Wealth Update

News & information to contribute to your financial peace of mind



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Too much stirring can ruin the recipe

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Have you ever considered that investing in stocks is a lot like cooking in a crock pot? They both need minimal intervention and stirring once the right ingredients have been measured and assembled. Unfortunately, this analogy is lost on most investors who tend to stir their pots too often - and often to their own detriment.

Various studies have quantified the cost to investors of "stirring the pot" too often including one by Kenneth French from Dartmouth College who estimated investors collectively spend about \$100 billion per year trying to outperform the stock market by paying others to stir their investment pots. Unfortunately, most of those people are left with little flavor on their palate and less money in their investment portfolio.



One specific expense of such stirring often overlooked by investors is the cost of turnover in their portfolios. Turnover refers to how frequently holdings within a portfolio are replaced as a result of buying or selling stocks. Turnover is measured in percentages, so a turnover rate of 100 percent means on average all the stocks within a given portfolio are replaced within one year.

The average mutual fund has a turnover rate of about 100 percent, and there are funds with turnover rates exceeding 500 percent (which means they held their stocks for less than three months before selling) and some with less than 10 percent turnover (for a holding period of more than 10 years).

Here's how this type of stirring can deplete the flavor in your investment crock pot. The estimated cost of buying or selling stocks within professionally managed mutual funds is about 0.5 percent for every 100 percent of turnover. Imagine investing \$100,000 in a fund with 10 percent turnover which would incur transaction costs of 0.05 percent per year compared with the portfolio with 500 percent turnover and corresponding costs of 2.5 percent per year. This almost 2.5 percent difference over 20 years (assuming a gross return of 8 percent) would result in \$462,000 for the 10 percent portfolio versus \$321,000 for the 500 percent portfolio. The difference in outcomes exceeds the original amount invested!

Understanding turnover is important because it is one thing you can control as an investor. You can identify the turnover rate of mutual funds you own by looking at websites such as www.morningstar.com or, if you have a portfolio of individual stocks in a nonretirement account, look at your Schedule D on your tax return to see how often trades are being made in your portfolio. If you have multiple pages of trades listed, chances are the turnover rate is fairly high.



National conference to feature FSG speakers

Certified Financial Planners® Mike Haubrich and Joy Clady will be contributing speakers during panel discussions at *FPA Experience 2011*, the annual conference of national financial planning professionals to be held in San Diego September 15-18. The conference, which provides educational, experiential, and networking opportunities to thousands of attendees, intended to inspire excellence in the profession.



Mike and Joy will be involved in a two-part discussion entitled “The Future of the Profession: Integrating the Talent of Today into the Firms of Tomorrow.”

Other panelists include CFP Board members and financial planning educators, as well as advisers and recruiters.

Perspectives from the panelists will focus on challenges in recruiting and hiring practitioners in the next decade and bridging the gap between classroom learning and actual contribution to client and firm success.

October workshop update: “Sustainability in Unsustainable Times” – October 18; 6:30 p.m.

Many of you may have heard Mike Haubrich share insights about “personal sustainability” in previous workshops hosted at Financial Service Group. Personal sustainability is a culmination of various aspects of our lives including our finances, our careers, our relationships, and our health.

Join Mike Haubrich, CFP® as he presents “Sustainability in Unsustainable Times,” on **Tuesday, October 18, 6:30 p.m. to 8 p.m.** at the Financial Service Group Office Center located at 4812 Northwestern Avenue in Racine.



Mike will provide an update to his popular Personal Sustainability series and present how recent political and economic events continue to impact personal sustainability in this world of discontinuous change.

FSG Workshops are open to the public. However, seating is limited so we ask you to reserve your spot by calling our office at 262-554-4500, or visiting www.toyourwealth.com/upcoming_workshops.html

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