



# Fisher Funds

## Investor Education Centre

*Making investing enjoyable, understandable  
and profitable...*

### **Are investment fees ever worth it?**

**18/04/10**

Nobody likes to feel that they have overpaid for a product or service. We want to believe that we have received value for money.

With a product, it is relatively easy to decide whether it represents value for money – if it looks like it's going to fall apart after a few uses, we will only be prepared to pay a small amount for it. If it is well-made, and consists of quality materials, we'll pay a bit more.

But how do we decide whether a service represents value for money? How much is a reasonable amount to pay for someone's advice, or for an hour of their time, or for their expertise and knowledge?

A 3% commission for selling our house might seem reasonable if the agent advertises our house, holds open homes and shows a lot of people through it. But we'll feel less happy about paying up if our house sells on the first day it is listed without the agent having to do anything.

We have the same dilemma with investment advice and investment management. A 1% annual fee for an adviser to review our investment portfolio might be fine if every year our portfolio increases in value by 10%.

And we will be happy to pay our fund manager a 1% annual management fee if he generates investment returns ahead of the market. But if we have a negative return, or if we just do as well as the market, it is natural to feel that we have been overcharged.

Some suggest that all investment services should have the same low fee structure, but that is not necessarily the answer.

No two investment managers or advisers are the same, and you don't always get what you pay for. When it comes to investment talent, it can indeed make sense to pay more in order to get access to the very best.

You could choose a passive share fund whose returns match the market and pay a management fee of perhaps 0.3%pa. However, this low fee will not necessarily guarantee you better returns than the active fund that has an annual management fee of 2% and a 20% performance fee.

Similarly you could choose a KiwiSaver fund for its low monthly administration charges, but you may find that the service and communication you receive each month is minimal because the low admin charges don't cover the costs involved in providing client service.

It is hard to know how much is too much.

I have always suggested that clients ask themselves whether they feel they have received full service. If their adviser kept them informed and reviewed their affairs regularly, she probably earned her fee, even though the returns were not great. If a manager invested according to his time-tested strategy but the market was negative overall, he should still be paid for his efforts.



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You don't always get what you pay for. Sometimes, you get more. When it comes to securing your investment future, cheapest is not always best.

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