

YOUR MONEY SORTED



INVESTMENTS CAN BE COSTLY

By LETITIA WATSON

Send suggestions for topics and requests for info to yourmoney@you.co.za. We may answer your questions in this column but won't reply personally.

Beware! The more you pay in fees the lower your returns

CHECK THE FINE PRINT

High fees can consume a huge chunk out of your savings – especially if you have a long-term investment. In addition, it's not always clear what fees are charged for. If for instance you have a unit-trust investment the fees are detailed on the fund's fact page under the heading Total Expense Ratio (TER) and the costs are expressed as a percentage of the amount invested in the unit trusts. Many people assume TER is the total fee charged but it doesn't always reflect all costs.

MANAGEMENT FEES

Investment companies can charge fees to actively manage your investment as this is a service they provide. But make sure the management fees provide you with value for money. About 81 percent of actively managed South African equity funds trail the global benchmark, according to research by S&P Dow Jones Indices. This means that the returns on managed investments don't necessarily make up for the high fees fund managers charge.

ADVICE FEES

These are the fees financial advisers charge – either on a consultation basis (payable immediately) or on an ongoing basis for the management of your portfolio. Samuel van Tonder of PSG Wealth says advisers mostly opt to be paid on an ongoing basis which means your portfolio is managed for the lifetime of your investment. He says investors should be cautious if advisers charge more than 1,5 percent a year (VAT excluded) for the ongoing management of investments. Negotiate and see if a one-off payment won't cost you less than an ongoing fee.

PERFORMANCE & ADMINISTRATION

Not all investment funds charge a performance fee. This is an additional fee charged when a specific growth target is exceeded. The problem is fees aren't necessarily reduced when the fund underperforms. When you invest in a fund there are certain administrative tasks the investment company performs. Admin fees as high as 1,25 percent a year (VAT excluded) are sometimes charged. Ask what the administration fee is and whether it's negotiable.

5 QUESTIONS ABOUT FEES

- 1** **What other fees can be charged?** Ask if fees apply if you want to withdraw funds; what the fees are if the investment is in a model portfolio; and what the platform fees are if the investment is managed by a linked investment service provider (Lisp).
- 2** **What is passive fund?** It's for instance an index fund which follows the performance of certain indices on the stock exchange.
- 3** **Are the fees for passive funds lower than those for active funds?** They're usually considerably less because there's no active fund management.
- 4** **How can I tell if the fees are too high?** Compare the fees and returns for similar investment products.
- 5** **Are fees more important than ever?** Fees are always important but in the absence of a bull market, returns are usually lower, so keep a close eye on your investment.

EVEN 1% MAKES A DIFFERENCE



Let's say you saved R1 000 a month for 40 years for your retirement and the growth on your contributions was six percent. If you'd paid no fees the investment would have grown to R13,781 million. But if you were charged a total of two

percent in fees your investment would be worth R8,867 million – nearly 36 percent less! If a fee of one percent had been charged the investment would have grown to R11,01 million, which means only 20 percent would have been paid towards fees.

SOURCE: SYGNIA ASSET MANAGEMENT

TIP! Legally all fees must be clearly set out. Insist on seeing the total cost.

GET MORE HELP HERE

- Association for Savings and Investment South Africa (Asisa), asisa.org.za
- Unit trust fund fact pages
- Fund performance monitor morningstar.co.za

The four most dangerous words in investing are 'this time it's different'

– INVESTOR AND PHILANTHROPIST JOHN TEMPLETON