



ZWEI Wealth

SAMBA Investment Roundtable

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Average investor awareness of cost



Cost of financial investments seem not to matter to most investors

Client statements

“Please Paul, do not bother me with these small amounts”

“I know exactly what I am paying”

“I negotiated extremely hard and must have one of the best fee arrangements”

“As long as the performance is ok, I am happy to pay fees”

A few inconvenient truths about investment cost

- **unsuccessful** investment managers usually apply **high fees**
- **successful** managers charge **less than the market average**
- **highly successful** managers usually belong to the group of the “**least expensive**”

Why do we observe this market failure in the broad field of financial investments?

Quiz:

In which of these cases would you take immediate action?

Investment case 1

You just discovered that your investment manager, your custody bank and your financial product provider are hiding fees of 0.75% p.a. on your CHF 0.5 million portfolio.

Investment case 2

When being billed for replacing all floors and bathrooms in your house, you notice an agreed discount of CHF 39'000 not having been granted.

Dissecting investment cost

Cost layers in the financial industry

- **management fees** charges for the management of assets and/or investment advice
- **custody fees** safe-keeping and securities administration
- **transaction fees** brokerage, stock exchange charges and transaction taxes
- **advisory fees** strategy – manager selection - monitoring
- **product fees** charges built into investment funds and other financial products
- **margins / spreads** trading margins (options, bonds), foreign exchange and margins on loans
- **other cost** specific reports (tax), withholding tax reclaims, account charges

Transparency features of investment costs

- **management fees** transparent – performance fees not predictable / difficult to check
- **custody fees** transparent
- **transaction fees** transparent – not included: stock exchange charges and taxes
- **advisory fees** transparent
- **product fees** partially hidden – TER only covers management and administration
- **margins / spreads** hidden
- **other cost** transparent – difficult to track

The road to cost reductions

Cost do impact your investment performance directly and immediately

- Obtain full transparency of all cost – bear in mind that **All-In-Fees** do **not** cover all costs.
- Avoid being tricked by the “law of small figures” – **costs are always important.**
- When assessing product cost, the published **TER** should be multiplied by about 1.5 for defensive investment contents and ETFs, by about 2 for managed equity products and by about 3 for multi-asset-class and multi-currency investment schemes.
- If self-investing: check your custody bank – the market is at 0.05% p.a. custody fee / CHF 35 ticket fee
- **Avoid structured products** wherever you can (plenty of hidden costs and other risks).
- Avoid managed investment funds if you do not have full cost transparency.
- Avoid performance fees wherever possible.
- For assets above CHF 1'000'000 your true, total charges should **not exceed 1% p.a.**

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