Make Your Investment Expenses Count

Over the years, various surveys have shown that investors aren't aware of what expenses their portfolios are incurring. Compounding matters, I've observed situations throughout my career where investors are focused on comparatively small costs without giving much consideration to the potential benefits that can be realized from incurring them. It's important to be aware of both.

I'm bringing this subject up because in our March Stock Superstars Report, which will be published tomorrow, we discuss the costs of tender offers, offers to purchase some or all of shareholders' stock in a company. If asked, I doubt many investors could articulate them. Yet, Helen of Troy (HELE) shareholders could be looking at a double-whammy of selling at a price below the current market value and incurring higher commissions. (Fidelity charges $38 for participating in a tender offer versus $7.95 for a traditional, open market trade). Granted, tender offers are not frequently made, but they do provide a good example of why it is important to pay attention to costs.

A far more commonly incurred cost is fund fees. Within the large-cap category of our 2014 mutual fund guide, one of the cheapest funds is Vanguard Total Stock Index (VTSMX). This fund has an annual expense ratio of 0.17%. In contrast, Marsico Flexible Capital (MFCFX) ranks among the most expensive funds with an annual expense ratio of 1.44%. This 1.27% difference equates to $127 extra per year for every $10,000 invested with MFCFX instead of VTSMX. That amount adds up. On a $100,000 investment, an investor will pay Marsico $1,270 per year more than he would pay Vanguard.

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