SHANNON INVESTMENT MANAGEMENT

Focus on Fees - Summer 2015, Issue 2
Comparison to a Common Model

I had a chance to review an account statement of a potential client's Individual Retirement Account (IRA). The gentleman had done a great job in putting aside money for retirement and other possible uses but may have been lax in overseeing the investment manager.

A well-known, nationwide investment firm was in charge of managing the IRA assets and seems to have purchased a standard mix of asset classes via mutual funds. The advisor also seems to have applied their standard fee schedule based on the dollar amount of assets under management (AUM). In this case, he was charged 1.50% (150 basis points or "bps") on AUM at the advisor level. He also paid indirect management fees at the mutual fund level. The latter set of fees ranged from 59 to 111 bps on AUM per fund, with a weighted average of 87 bps. **The combined advisor and asset level fees for this gentleman were 2.37% on AUM.**

Shannon Investment Management suggests all investors give close attention to fees at the advisor, asset and trading levels. For comparison, **SIM charges 60 bps (0.6%) on AUM at the advisor level and has built diversified client portfolios with asset-level fees of less than 20 bps (0.2%) on a weighted average basis for combined fees of less than 80 bps (0.80%) or 157 bps less than client's old advisor.**

How valuable might such a fee savings be? Assume two portfolios, each with a beginning balance of $100,000. The 1st portfolio earns 6% while the 2nd portfolio makes 150 bps more – or 7.5%. As shown below, the 1st account **(Series 1) grows to $320,714 over 20 years while the 2nd account (Series 2) reaches $424,785 over the same period, a 32.4% improvement over Series 1**. This is a useful example of both the merits of watching fees as well as the power of compounding.