



Are Mutual Funds Telling Investors the *Whole Truth*?

By Dennis Blitz, President, The IRA Club

According to Mutual Fund sales literature there are three very good reasons to invest in their shares: they offer professional management, low costs and diversification. Yet, let's look at the results to determine how well the funds are delivering.

According to Dennis Blitz; author of the forthcoming book *Saving More Isn't The Real Answer*, many of the 91 million mutual fund investors in America may have a right to be a little cynical about the promises mutual funds have made to them. Let's take a look at the three advantages of mutual fund investing and see if they deliver on their promise.

Professional Management: Year after year, over half of all professionally managed mutual funds fail to achieve a result equal to the stock market averages. This is not a one year phenomenon, but a regular occurrence. More than half of the professionally managed mutual funds have underperformed the stock market averages in each of the past 40 consecutive years.

Low Cost: Once we take into account management fees, operating costs, trading costs and marketing expenses – all of which are charged directly back to the investors – the total expense burden of mutual fund investing can exceed 2 percent per year in many funds. This means that a \$50,000 investment in a professionally managed fund will cost an investor of over \$20,000 over a 20 year period assuming the investor is buying a no-load fund. If you buy a load fund the cost could be even higher.

Diversification: Often mutual fund sales literature leads the reader to believe that when buying mutual fund shares they are buying safety. The literature almost shouts that Mutual Fund Diversification = Safety. But if Mutual Fund Diversification = Safety, why did millions of mutual fund investors lose billions of dollars in their mutual fund portfolio in 2001, and 2002?

The reason is that even though mutual funds may hold hundreds of different stocks they are not truly a diversified investment. Sure you may have a diversified portfolio of stocks but that is all you have – stocks. When the stock market goes down you and your diversified portfolio of stocks will be dragged along.

What can we do? The answer is simple. We shouldn't put too much trust in what we read in the fund literature. Holding some mutual funds in your portfolio is fine but too many people have the bulk of their investments in this single investment type. Many people hold as high as 70 or 80 percent of their assets in mutual funds. (Think about your IRA or 401K plan allocations). Investors should rebalance their portfolios to include other forms of assets including real estate, fixed assets, and even consider loaning money if the borrower will provide adequate collateral.

For more information on this topic and hundreds of additional investment ideas, watch for my forthcoming book [Saving More Isn't The Real Answer](#) or visit www.dennisblitz.com.

Dennis Blitz is an active writer and lecturer on the topic of investing; he is President of The IRA Club, an organization dedicated to providing investors with the education to achieve the greatest possible growth in their Individual Retirement Accounts. Mr. Blitz was president of Dearborn Financial Publishing before its acquisition by The Washington Post Company.