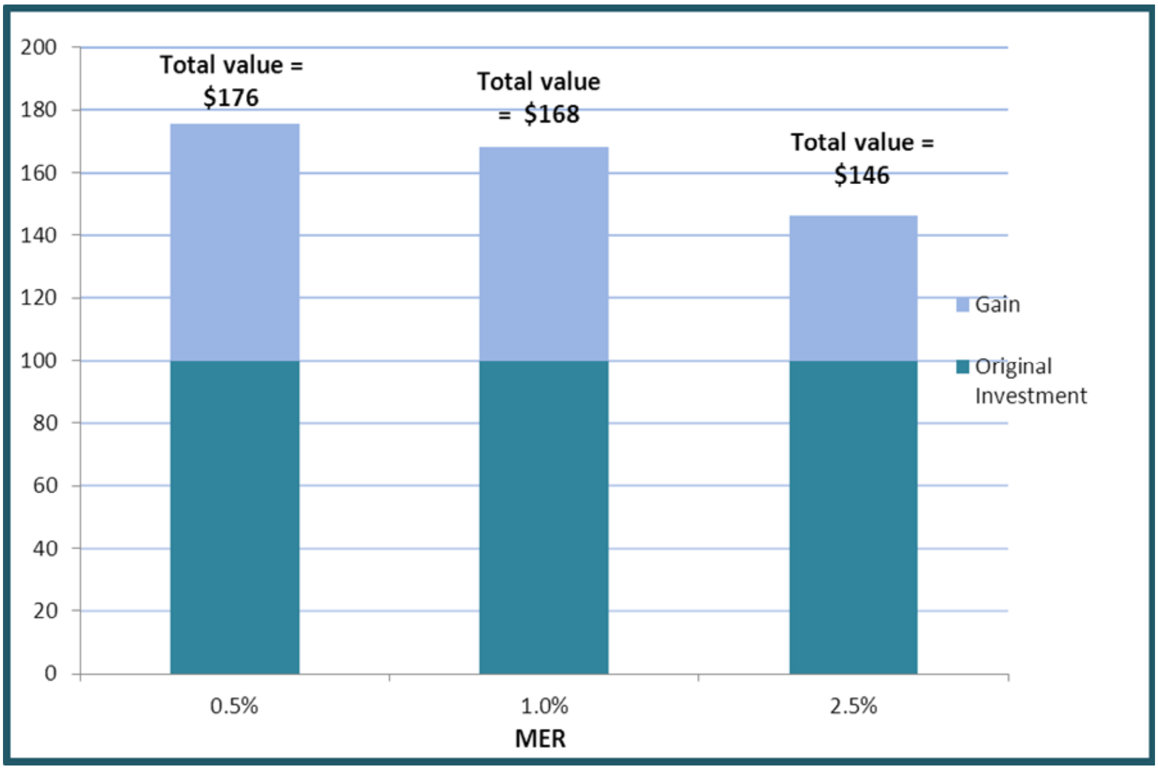
The Impact of Fees on Portfolio Performance

There is no shortage of empirical studies that show the negative impact costs can have on portfolio performance. Groups such as Vanguard (www.vanguard.com) and the Financial Consumer Agency of Canada (www.fcac-acfc.gc.ca) have a number of charts, studies and tools that show how fees can erode long-term portfolio returns.

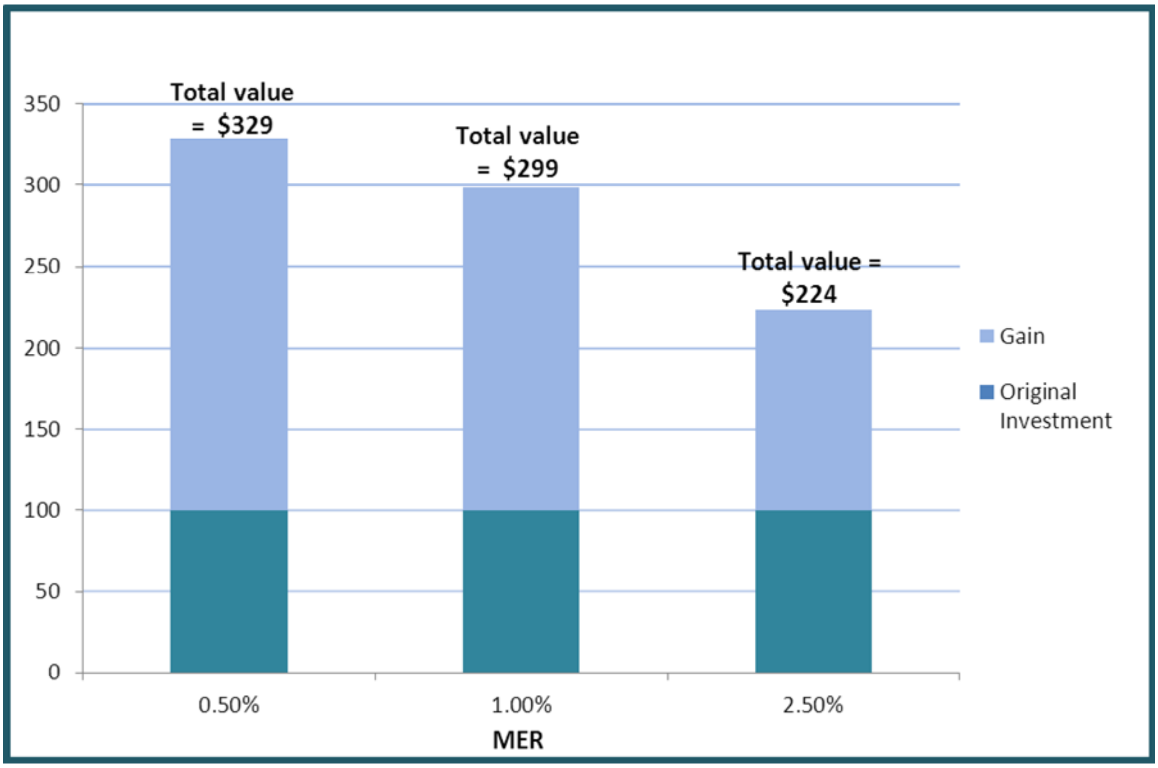
Below is a graphical illustration of a hypothetical portfolio that invests $100 and returns 7% per annum before fees under a number of different fee regimes over 10, 20 and 30 year time horizons. In a historical context a 7% total return on a passively managed, well diversified equity portfolio is a reasonable return assumption.

As seen below higher fees over the medium and long-term can have a material impact on overall performance.

<u>Value of $100 after 10 years - return before costs = 7% per year</u>



Value of $100 after 20 years - return before costs = 7% per year



Value of $100 after 30 years - return before costs = 7% per year