STEWARD

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"A penny saved is a penny earned."

Benjamin Franklin

A recent PBS Frontline documentary (*The Retirement Gamble*) asserts that many individual investors may be paying too much for investment management. We agree that many investors are paying too much by not asking the right questions about mutual fund costs. If there are multiple mutual fund share classes available to investors with different relative costs, we think that a prudent investor should pursue the lowest cost share class available.

Three ways to protect your portfolio from high fees follow:

1. Understand the fee structure of your funds
2. Choose institutional class shares over retail shares when possible
3. Have an "Investment Expense Analysis" run for your portfolio

Morningstar defines mutual fund share classes as "shares of the same fund that offer different shareholder rights and obligations, such as different fee and load charges. Common share classes are A (front-end load), B (deferred fees), C (no sales charge and a relatively high annual 12b-1 fee, such as 1.00%). Multi-class funds hold the same investment portfolio for all classes, and differ only in their surrounding fee structure." *It is important to remember that the different share classes of a specific mutual fund own the same investment portfolio holdings, and the only difference is in the expense ratio that is deducted out of your fund for investment related expenses.*

Mutual fund companies offer "retail" mutual fund shares to the public — sometimes with embedded fees used as compensation to encourage banks and brokers to distribute their funds. The fees paid to the brokers to distribute the funds are sometimes called revenue sharing or distribution fees (12b-1 fees) and are also often described as "hidden fees" because they are difficult for investors to identify. In an effort to ensure more transparency when it comes to mutual fund fees, the Securities and Exchange Commission (SEC) studied the issue in 2010. The SEC acknowledged in its review of 12b-1 fees that fund accounting is muddy and makes it almost impossible for shareholders to fairly compare the services they receive for each portion of a fund's expense ratio.

Mutual funds may offer multiple share classes of their fund including "retail" share classes for individual investors and lower cost "institutional" share classes for more sophisticated investors who are sensitive to paying high fees. Allodium uses institutional share class funds for our clients whenever possible. *An institutional fund is a class of mutual fund that typically does not include sales commissions or the hidden 12b-1 distribution fees.* Institutional shares can be 50% to 75% less expensive than the retail share class of the exact same fund. This means that the individual investor owning the retail share class might be paying 100% to 200% more than the institutional investors who own the exact same underlying investment portfolio.

To lower your investment management costs, determine if you can access the institutional share class of your mutual funds. Allodium can provide an "Investment Expense Analysis" report to identify the hidden 12b-1 fees and to determine if an investor is currently accessing the lowest cost share class of mutual funds and ETFs in their portfolio.

Please call us if you would like us to prepare an "Investment Expense Analysis" report on your current mutual fund and ETF holdings.

David Bromelkamp
President and CEO

Headlines

- Welcome back Anne! Anne Ward has returned to the office full time after some time off for maternity leave.
- Dave Bromelkamp attended the annual fi360 conference in Arizona in March. The conference focused on best practices for investment fiduciaries.
- As a volunteer for BestPrep, Bryan Polley presented to the Blaine High School Senior class about becoming "Money Smart".
- On June 6th Dave Bromelkamp gave a presentation entitled, "How to Reduce Investment Costs with the Optimal Investment Structure" to foundation and endowment leaders.
- Our office will be closed on these upcoming New York Stock Exchange holidays:

July 4 - Independence Day
September 2 – Labor Day

FINANIAL PLANNING TIP

The Buzz about 401k Roth conversions

The tax law changes that occurred earlier this year have opened the possibility for "in-plan" company retirement plan Roth conversions. In-plan conversions have been around since 2010, but were restricted only to workers who had either left the company or were older than 59 ½. The new deal allows any employee to make an in-plan conversion. This broadens the impact considerably for those who want the benefits of a tax-free Roth account, but whose incomes are too high to make a Roth IRA contribution or who may not be eligible for a Roth IRA conversion if they do not have retirement assets outside of their company retirement plan.

Income tax will be due on the portion of assets that are converted to a Roth 401k in the year of the conversion. However, each dollar that is converted to the Roth will grow tax free. The longer time frame a person has to allow the assets to grow, the more advantageous the strategy can be. Compound interest in a tax free investment is a powerful concept.

Eligibility for an "in-plan" Roth conversion doesn't automatically make it a good idea, but under the right circumstances it can have significant benefits. An analysis of retirement income needs, as well as current and future tax rates, should be taken into account. We encourage you to talk with your financial and tax advisors.

We Appreciate Your Introductions

To maximize our objectivity and avoid conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks, brokerage firms and other financial product providers, and we do not receive commissions for the investment options that we recommend.

If you know someone who may be looking this type of objective investment advice, please contact Dave Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange a friendly, no-obligation introduction.

Mark Your Calendars

Wednesday, June 19

As a client and community service, we welcome opportunities to share investment and fiduciary best practices with individuals, families and organizations. To this end, Allodium will host an educational workshop for clients and guests entitled, "Retirement Income Planning in a Low Interest Rate World." Please contact Rachel Halverson at 612-230-3706 or rhalverson@aicria.com to be added to our invitation list for future events and workshops.

Monday, August 19

Allodium will host a Client Appreciation Event aboard the Paradise Lady Yacht for an evening cruise down the Mississippi. Invitations with more details will be sent in July.

Steward is published quarterly by Allodium Investment Consultants. Please contact Rachel Halverson at 612-230-3706 or rhalverson@aicria.com if you have any comments about this publication or would like to be added to or removed from our mailing list.

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