# QuickCourse

# Calculating Total Costs

In general, for most brokerage and advisory accounts the ongoing “cost of doing business” falls into four general categories:

- Commissions, mark-up/downs on stock and bond transactions
- Front-end sales charges on mutual funds and other ‘packaged’ products
- Advisory fees paid to your adviser
- Expenses on mutual funds/exchange traded funds or ETFs

In all probability, your costs come from more than one category.  Some definitions are in order:

## Commission
A service charge for buying or selling a security.  For example, a stock or ETF.

## Markup
Certain securities, for example bonds, are available for purchase by retail investors from dealers who sell the securities directly from their own accounts.  The markup is the difference between the price the security was purchased at and the price the dealer charges the retail investor.

## Markdown
The amount subtracted from the selling price of a security.  For example, a bond.

## Front-end Sales Charge
The sales charge on a mutual fund is the difference between the price you pay per share for the fund and the fund’s net asset value per share, or liquidation price.

## Advisory Fee
What you pay your adviser for ongoing advice.  Fees are generally calculated as a percentage of your account’s assets, a flat fee or an hourly rate.

## Expense Ratio
The expense ratio is the total percentage of mutual funds/ETFs assets used for advertising (12b-1), administrative, management, and all other expenses such as recordkeeping, custodial services and legal expenses.  An expense ratio of 1% per annum means that each year 1% of the fund's total assets will be used to cover expenses.  Translated to a dollar amount, a $25,000 mutual fund investment with a 1% expense ratio is $250 annually.  Since fund performance is calculated net of expenses, expense ratios have a material effect on fund performance.

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The expense ratio does not include the fund's trading activity, sales load or brokerage commissions. For more information on fund expenses and calculating fund expenses, visit FINRA Fund Analyzer at http://apps.finra.org/fundanalyzer/1/fa.aspx

# Commission-based Accounts

## Commissions, Mark-up/downs

Calculate what the total cost in commissions and bond 'mark-up/mark-downs' represent as a percentage of the assets in your account for the period.

For example:
Beginning account value: $100,000
Period: full year

| Transaction Type | Amount |
|---|---|
| Commissions | $1,000 |
| Mark-up/mark-down | $250 |
| | $1,250 |

In this example, the commissions and mark-up/down total $1,250. Stated as a percentage of the account's beginning value, this equals 1.25%.

## Mutual Fund/ETF Expenses

Let's assume you have three mutual funds in your brokerage account and would like an estimate of what you're paying on an annual basis in fund expenses. The calculation is easy. For example:

| Investment | Dollar Value | Expense Ratio % | Est. Ann. $ Amt. |
|---|---|---|---|
| Mutual Fund A | $50,000 | 1.25% | $625 |
| Mutual Fund B | $25,000 | 0.95% | $238 |
| ETF C | $25,000 | 0.15% | $37 |
| | $100,000 | | $900 |

900 ÷ 100,000 = 0.9%

Using ending period fund values and assuming no additions/withdrawals and no increase or decrease in the value of the funds, this calculation provides a rough estimation of what you might be paying on an annualized basis for your funds. In this example, the average weighted expense ratio for the funds you own is 0.9% or $900 annually.

## Getting at Your Total Costs

For a complete accounting of what you're paying for and how much that is, include a rough estimation of any mutual fund/ETF expenses in the calculation. For example:

Beginning account value: $100,000
Period: full year

| Transaction Type | Amount |
|---|---|
| Commissions | $1,000 |
| Mark-up/mark-down | $250 |
| Mutual Fund B fund expenses (annualized) | $238 |
| | $1,488 |

In this example, the commissions and mark-up/down total $1,250. The mutual fund has an estimated additional expense of $288 for a total of $1,488. Stated as a percentage of the account's beginning value, the total cost of doing business equals 1.49%.

## Fee-based Accounts

Many fee-based advisers offer what are generically referred to as a mutual fund "wrap" account. With this type of account, the adviser may either select a "model" portfolios (a preset allocation of mutual funds) that is appropriate for the purpose of your account, your investment objective, and tolerance for risk, or they may develop a customized portfolio for you based upon the same information. Then pre-screened mutual funds that meet certain criteria are selected for your portfolio. The adviser monitors the mutual funds and provides periodic performance reports. The expense ratios of these mutual funds add another level of fees.

If you have a mutual fund wrap account, calculate the average dollar-weighted expense ratio you're paying for the mutual funds in the portfolio. It's easy to calculate. For example:

| Investment | Dollar Value | Expense Ratio % | Est. Ann. $ Amt. |
|---|---|---|---|
| Mutual Fund A | $20,000 | 0.60% | $120 |
| Mutual Fund B | $20,000 | 0.50% | $100 |
| Mutual Fund C | $20,000 | 1.15% | $230 |
| ETF E | $20,000 | 0.10% | $20 |
| ETF F | $20,000 | 0.15% | $30 |
| | $100,000 | | $500 |

500 ÷ 100,000 = 0.50%

Using ending period fund values and assuming no additions/withdrawals and no increase or decrease in the value of the funds, the calculation will provide you with a rough estimation of what you might be paying on an annualized basis for the funds in your portfolio. This amount is in addition to the fee you're paying to your adviser.

### Getting at Your Total Costs

For a complete accounting of what you're paying for and how much that is, have your adviser calculate the total costs associated with your account. For example:

Beginning account value: $100,000
Period: full year

| Fees/Expenses | Amount |
|---|---|
| Advisory fees | $1,250 |
| Est. fund expenses (annualized) | $500 |
| | $1,750 |

If, for example, your advisory fee is 1.25% annually and the average dollar-weighted expense ratio of the mutual funds in your account is 0.50%, then the total annualized fee you are paying is an acceptable 1.75%.

If you have a fee-based advisory account, you need to re-confirm on an annual basis, the fee you are paying. You also want to confirm if there are investments in your account to which the fee does not apply, or should not apply. For example, if you own a real estate, oil & gas or equipment leasing limited partnership within your advisory account, it may be difficult to justify paying the full advisory fee, or any fee, on those assets.