

## Keeping Portfolio Costs Low

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The importance of keeping portfolio costs should be self-evident. Costs come directly out of the investor's pocket. The two primary portfolio costs consist of the expense ratio of the mutual funds and/or ETFs being used in the portfolio and the advisory fee being charged (if there is a financial advisor involved). Therefore, both costs have to be kept as low as possible.

The first place to start is the cost of the funds being used in the portfolio. If the average expense ratio of the funds in your portfolio is 100 bps AND the annual advisory fee is 100 bps (if using a financial advisor), your total annual portfolio cost is **200 bps** (or 2%). At that cost level, the average annual withdrawal for a retiree invested in a diversified 7-asset portfolio is approximately **\$115,754** over a 25-year period between the ages of 73 to 98 (assuming only the amount specified by the Required Minimum Distribution was withdrawn from the portfolio and assuming a starting balance of \$1,000,000).

This average annual withdrawal of **\$115,754** was calculated by analyzing the performance of an equally-weighted 7-index portfolio over 30 rolling 25-year periods between 1970 and 2023 (a 54-year span). The 7 indexes in the portfolio covered the following asset classes: large cap US stock, small cap US stock, non-US stock, real estate, commodities, US bonds, and cash. To purchase the spreadsheet tool to do this analysis yourself click on this link: <http://www.7twelveportfolio.com/Downloads/Web7TwelveReport.pdf>

If the cost of the mutual funds in the portfolio is cut in half (from 100 bps to 50 bps) by utilizing funds (or ETFs) with lower expense ratios, the overall portfolio cost can be reduced from 200 bps to 150 bps. By doing so, the average annual withdrawal for the retiree increases to **\$124,620** or roughly \$8,866 more income each year. That works out to a "raise" of about **\$739 per month** during retirement.

We can do even better. It's possible, using low-cost ETFs, to build a diversified retirement portfolio for as low as 10 bps. If the advisory fee were reduced by a mere 10% from 100 bps down to 90 bps, combined with funds costing 10 bps, the overall portfolio cost could be lowered to a total of 100 bps. At that cost level, the retiree withdrew an average of **\$134,249** each year—or an additional **\$1,541 per month** compared to a portfolio costing 200 bps each year.

### The Impact of Reducing Portfolio Cost

Combinations of fund expenses and advisory fee	Total Portfolio Cost (aggregate expense ratio of funds and advisory fee)	Average Annual Withdrawal from a Retirement Portfolio between the ages of 73 to 98* (using RMD guidelines)	Additional Monthly Income for Retiree
Total fund expenses of 100 bps Advisory Fee of 100 bps	<b>200 bps</b>	<b>\$115,754</b>	---
Total fund expenses of 50 bps Advisory Fee of 100 bps	<b>150 bps</b>	<b>\$124,620</b>	<b>\$739</b>
Total fund expenses of 10 bps Advisory Fee of 90 bps	<b>100 bps</b>	<b>\$134,249</b>	<b>\$1,541</b>

*\* Assuming a \$1,000,000 starting balance at the age of 73. Multi-asset portfolio including large cap US stock, small cap US stock, non-US developed stock, US real estate, commodities, US bonds, US cash. Analysis of 30 rolling 25-year periods from 1970-2023 (a 54-year period).*

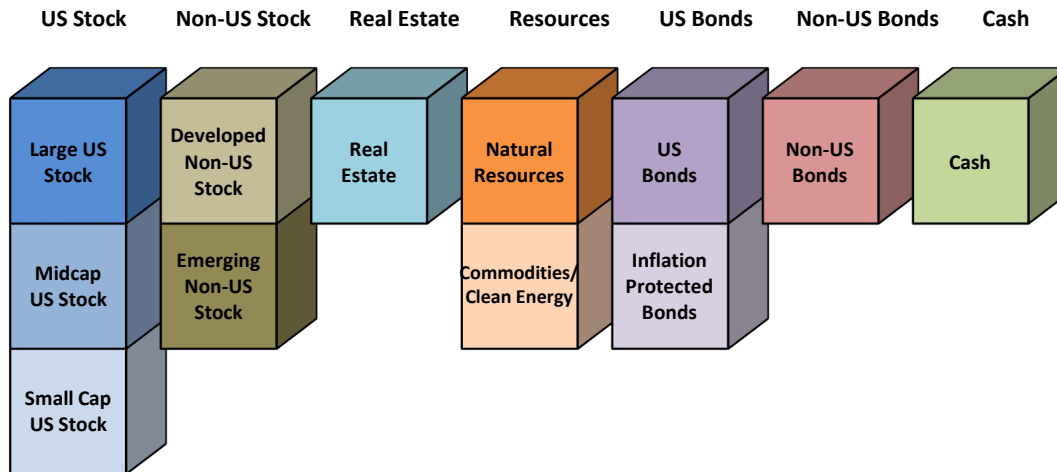
*Past performance is not a guarantee of future performance.*

## A Modern Diversified Portfolio

A modern diversified portfolio is the **7Twelve®** portfolio. It is an investment model that can be built very easily and at very low cost. For example, if actively managed funds from various fund families are used to build the 7Twelve portfolio the overall fund expense can be as low as 55 bps. If the 7Twelve model is built using ETFs from Vanguard, for example, the total cost of funds can drop to 9 bps.

### The 7Twelve® Model

All 12 funds in the “core” model are equally-weighted (covering 7 asset class “silos”)



There are several 7Twelve models, all built with 12 mutual funds and/or ETFs covering the same 7 core asset classes. As shown below, there is an Active 7Twelve model, a Passive model, two Vanguard models, a Fidelity model, and a Schwab model. The results of the various models are consistently similar to each other. To purchase 7Twelve research reports that provide guidance in building one of the 7Twelve models shown in the table below click on this link: <http://www.7twelveportfolio.com/Downloads/Web7TwelveReport.pdf>

### Low-Cost 7Twelve Models

12-Asset <b>7Twelve®</b> model	<i>Active model using 12 actively managed mutual funds</i>	<i>Passive model using 12 ETFs from various fund families</i>	<i>Using 12 Vanguard Mutual Funds</i>	<i>Using 12 Vanguard ETFs</i>	<i>Using 12 Fidelity Mutual funds</i>	<i>Using 12 Funds available at Schwab</i>
Portfolio Aggregate Annual Expense Ratio in January 2024	<b>0.55%</b>	<b>0.34%</b>	<b>0.17%</b>	<b>0.09%</b>	<b>0.44%</b>	<b>0.11%</b>
<b>25-Year Performance from 1999-2023</b>	<b>6.99%</b>	<b>6.27%</b>	<b>6.79%</b>	<b>6.64%</b>	<b>7.71%</b>	<b>6.51%</b>

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**Past performance of investment products does not guarantee future performance.**