

# TTF Hot Topics June 2021

On being intelligent and informed on costs

**Knowledge is power:** 2% pa expenses and fees will more than halve today's funds in just 35 years, and lots of expenses are hidden.

**You need to know** to minimise or avoid annual % costs and charges

“Charges matter less than performance” is a misleading LIE

**But who can you trust** the tell you “the truth, the whole truth, and nothing but the truth” on investment? Sadly, certainly not the financial sector, and not even the FCA.

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# Some simple truths – and a big lapse

1. Equity investment is (almost\*\*) a zero sum game. Active management on average will underperform after expenses. References: FCA Asset Management Market Study, Buffett 1975 Memo on pensions for Washington Post.
2. What you need to know is HOW to identify products and services with minimal expenses. Answer: self-select services that permit ETFs and individual shares without levying percentage fees, with modest fixed charges. Pure “transparency” is not enough. This knowledge need to be readily accessible without needing to use IFAs. UKSA’s “Savers take control” project is intended to fill the gap, as a genuinely independent source of essential truths.
3. Lapse : FCA document on “consumer investments” identified the existence of good value services but gave no help in how to identify them. We suspect that the FCA’s brief does not truly put consumers 1<sup>st</sup>.



## Investing

Foundation ▾

Protection

Handling Debts

Cash Cushion

Securing your Home

Repaying your Mortgage

Saving

**Investing**

Planning

Simple Investing

Advanced Investing

Choosing Products

Assets

Products

Wrappers

*Investing sensibly is easy. We'll say that again. Investing sensibly is easy.*

## Why is it thought to be difficult?

Because there is an enormous range of opportunities available to the investor. Many of these are difficult to evaluate. Many are carefully packaged to target the retail investor (that means you and me), but others are hard to discern. What is certain is that choosing between these opportunities requires analytical skills.

## Why is it easy?

Because, if investments are analysed by type, just 1% are quite sufficient to build a sensible investment portfolio. The rest are difficult to understand. Of the rest:

- 10% are sophisticated products that, properly used, could make a contribution to the private investment portfolio
- 10% are special-purpose investments designed for specialists
- and the remaining 79% are junk

In [Simple Investing](#) we'll show you how to identify the 1% and how to use it. That's easy.

Later, if you want, in [Advanced Investing](#) we'll show you how to add a layer of sophistication. That's more difficult.

For now, there is one more foundation step.

# Some take-away points and links

1. Warren Buffett links:
  - Washington Post 1975 pensions memorandum published at the end of <https://www.berkshirehathaway.com/2013ar/2013ar.pdf> which also mentions Vanguard on p20.
  - Essays on the Gotrocks and the Helpers on page 18 of <https://www.berkshirehathaway.com/letters/2005ltr.pdf> and page 21 of <https://www.berkshirehathaway.com/letters/2006ltr.pdf>
2. A challenge to active managers – genuine long term partnership get paid once you have earned it, otherwise nothing. See <https://www.uksa.org.uk/sites/default/files/2021-07/Active-Management-Partnership-LongTermSolution.pdf>
3. UKSA's evolving basic financial information site at <https://honestmoneynow.co.uk> which is free to view.
4. More on the fundamental problems with the FCA's plans on consumer investment <https://www.uksa.org.uk/news/2021/01/30/our-response-fca-consumers-need-work-together-because-fcas-plans-do-not-put>
5. For a later TTF discussion: that (almost\*\*) on the second slide. Good corporate governance can grow the pie and lead to better human outcomes. But current norms on exec pay give the wrong incentives and need a massive rethink. Myners on the "ownerless corporation" is worth a look at [Autumn Lecture 2018 – YouTube](#) or <https://www.youtube.com/watch?v=9nYJExU9Tn4&t=2936s>