Where Should You Be Investing Your Money?

In recent years, you have not been able to pick up a newspaper, or magazine that doesn't have an articl touting the benefits of investing in mutual funds.

While the first mutual fund was invented back in the 1930s, they didn't really become popular until the great bull market of 1982 to 2000. Since then, mutual funds have been pushed by many financial advisors as ***"the only way to invest!"*** Almost everyone has owned mutual funds at some point, if only through their company 401k or personal IRA. Many people still own mutual funds in spite of the recei stock market declines and the current scandals surrounding the investment industry.

In the past 50 years, mutual funds have gone from an $18 billion also-ran in the financial-services industry to a $12 trillion titan. Mutual Funds now enjoy an unchallenged position of leadership, with 9 million US investors.

Most of the growth of mutual funds is attributed to introduction of the 401(k) and other qualified plans during the past two decades. Today, 10% of household financial assets are invested in 401(k) and Individual Retirement Accounts (IRAs), up from 6 percent in 1990, and mutual funds manage 47 perce of those assets. Households also have invested in mutual funds outside of qualified plans. Mutual fun manage $4.4 trillion of assets that households hold in those taxable accounts.

And, it's no wonder mutual funds became so popular in the 80's and 90's, when the media and investment houses were reporting huge unprecedented returns, in the US stock market.

In the 80's the S&P 500 Index (the benchmark everyone compares to) **went from 107.94 to 353.40. That's an average annual return of 12.59% over those 10 years.**

In the 90's, we had one of the best times in the history for the U.S. stock market. The S&P 500 Index went from 353.40 to 1469.25. That's a staggering total return of 347% in just 10 years, or average annual return of 15.31%.

Now compare that to the lack luster years of the 60's and 70's:

In the 60's the S&P 500 Index went from 59.89 to 92.06. That's an average annual return of 4.39 over those 10 years.

In the 70's the S&P 500 Index went from 92.06 to 107.94. That's an average annual return of on 1.60% per year, over those 10 years.

If you had actually received annual returns comparable to those of the S&P 500 Index during those 40 years (1960 though 2000) you would have averaged 8.33% per year.

However, when you consider that most mutual funds won't even come close to matching the S&P 500 Index over 30 or 40 years, and then you subtract the annual fees, it gives you an entirely different view the validity and benefits of investing in mutual funds.

Average Mutual Fund Expenses…

Sales charge	1.01%
12b-1 fees	0.37%
Expense ratio	1.35%
Transaction costs*	1.32%
Total	**4.05%**

*The average turnover of all mutual funds is 110%. The average transaction fee is estimated at 1.2%. This is an estimate only as mutual funds do not have to reveal this number and therefore do not.

So, even if you were lucky enough to find a mutual fund that had a total return comparable to that of th S&P 500 Index over the past 40 years, your net return after expenses would only be 4.28%. (8.33-4.05 Remember, you'll pay those expenses each year, whether your investment makes money or not.

To fully understand the impact of expenses… Glorianne Stromberg, a financial services expert was quoted as saying "Every 1% you pay in fees or charges will reduce your capital by about 20% over 25 years. That could mean the difference between being comfortably well off and struggling to make end meet."

As an example, at 10% per year, a $10,000 investment compounded over fifty years would yield $1,170,000. The same investment compounded at only 8% would yield just $470,000. That is a whopping sixty-percent difference amounting to $700,000.

And, we haven't even considered that from the beginning of 2000 through 2008, the S&P 500 Index ha gone down from 1,469.25 to 903.25. That's a total loss of (-38.53%)… or average annual loss of (-5.90%) over those 8 years. Overall, the average mutual fund plunged 30 percent in 2008, and many di fare as well as the S&P 500 index, which fell 38 percent for its worst year since 1937.

If you add in the last 8 years, the average return for the S&P 500 Index over the past 48 years is only 5.82%. Now, subtract the average expenses of 4.05% and your net return is only 1.77%. And, that's o if you were lucky enough to have found a mutual fund that performed as well as the S&P 500 Index ov those 48 years.

What's your chance of you having picked a mutual fund that performed as well as the S&P 500 Index?

Since 1960, the mutual fund industry has grown from 160 funds and $18 billion in assets under management to today where there are over 8,000 stock mutual funds with combined assets of $12.356 trillion. During the 1990s, 55% of equity funds failed, almost four times the 14% failure rate of the 1960s.

Most people tend to pick a mutual funds based on recent performance history. When do you think a mutual fund company decides to advertise a specific fund - just after a bad period or a great period? O course, they advertise a fund just after it has had a great return and typically, just as it's about to cool o These hot funds historically do very poorly after their best period. After studying mutual fund performance figures over a 20 year period, I have found that over the subsequent 3, 5, and 10 year periods, a whopping 80% of these "star" funds performed worse than the average similar fund.

Unfortunately, according to the folks at the ***Motley Fool***, only 10 of the ten thousand actively managec mutual funds available today, managed to consistently beat the S&P 500 Index over the past ten years. Remember, history tells us that very few, if any, of these top performing mutual funds will manage to beat the S&P 500 Index in the next 10 years.

The recent dismal performance of mutual funds' has contributed to the anguish of most retirement investors who saw a slump in their 401Ks that will probably prolong their working lives. And, with th losses in the retirement accounts, many retirees are being forced to go back to work. Disappointment understandably runs deep among investors who together have $9.4 trillion in U.S. mutual funds.

Warren Buffet, the world's greatest investor, said it best; "I would not invest in mutual funds, but if I did, I would choose an index fund. For most small investors who don't have time to research individua companies, cheap index funds are the best way to invest in the stock market."

First, an Index Mutual Fund is much cheaper to run than a typical actively managed mutual fund, beca they track a target benchmark, rather than constantly buying and selling securities in an attempt to outperform the market. Thus index funds generally have lower advisory fees, operating expenses, and trading costs than actively managed funds. Once you eliminate those analysts' salaries, an index fund c cut its costs tremendously and those savings can be passed along to investors in the form of higher returns.

Second, Index Mutual Funds perform better than most actively managed funds. During the 1990s, in c of the best times in history for the market, the S&P 500 Index provided an annualized return of 17.3%, (including reinvestment of dividends and capital gains) compared with just 13.9% for the average equi mutual fund. During the 1990s, the total shortfall between actively managed mutual funds and the ma as measured by the S&P 500 Index was a whopping 3.4% per year. And, that doesn't take into accoun the expense ratios, fees and loads in those funds, which would bring the return down to 9.85%. And th is in one of the best times in history for the stock market!

In more recent history, only 4% of diversified US stock mutual funds have beaten the performance of t S&P 500 Index, over the past 10 years ending in 2007.

Of course, investing in an index mutual fund guarantees that you'll never outperform the overall marke

So, where should you be investing your money? Where would you have fared better with your investments over the past 28 years?

$100,000 Invested On Dec. 31, 1980 In A Hypothetical S&P Index Mutual Fund...
(That probably would have outperformed all actively managed mutual funds)
Would Be Worth Approximately - $428,014
(That's after annual fees and expenses of 2.5% for the past 28 years)

$100,000 Invested On Dec. 31, 1980 In A Hypothetical Index Annuity
Would Be Worth Approximately - $553,263
(Based On An 80% Participation Rate)
(They do not charge management fees and they are 100% tax-efficient)
$100,000 Invested On Dec. 31, 1980 In A Typical Deferred Annuity
Would Be Worth Approximately - $583,162

(Based On An Average Of 6.5% Interest During The Past 28 Years)
(They do not charge management fees and they are 100% tax-efficient)

Who knows what the future will bring. Will the stock market continue to deteriorate? Probably. Will interest rates start to climb? Who knows? One thing for sure, most average middle-income families ca afford to lose what little money they've saved.

So, with all the risks and fees involved, do you really belong in mutual funds