7 surprising ways to boost your investment returns

1. Reduce Trading Expenses

Sounds boring? Let me give you an example, which will change your mind in 1 minute. My broker charges me a flat fee to buy a certain fund, which I buy every month.

I was initially buying it several times per month, every time I had $1000 spare. (Whether you invest $10 or $10,000, the principle is the same). I then looked up their fee table and found out it looked like this:

Transactions-Value	Nyse - Nasdaq Amex - Composite Nyse Arca
0.00 - 500.00	9 USD
500.01 - 2'000.00	25 USD /
2'000.01 - 10'000.00	30 USD /
10'000.01 - 15'000.00	55 USD /
15'000.01 - 25'000.00	80 USD /
25'000.01 - 50'000.00	135 USD /
>50'000.01	190 USD /

So I calculated the % of my investment I was spending on fees for each amount from $1,000 to $15,000 (see column 3). I could see that there was money to be saved investing $5,000 rather than 5x $1,000. How much? 2.5% -0.6% = 1.9%.

I make this investment at least 1x per month.

Increasing my investment amount by 1.9% gives me:

$5000 per month x 1.9% = $95 per month

Over 20 years (240 months): 240 x $95 = $22,800 additional cash invested due to my fee saving (see column 4)

That is pretty good.

Let's compound this. Use my calculator at https://goatacademy.org/free-guide/:

Over 20 years, investing an additional $95 per month, gives me a total boost to my portfolio of $82,235!!

Yes, you read that right, a small change in trading fees will give me more than eighty-thousand dollars.

Column 1	Column 2	Column 3	Column 4	Column 5
Amount Invested per Trade ✓	Fixed Fee ✓	% of Investment Eaten up by Fees ✓	Saving compared to Row Above Over 20 Years = Additonal Investment ✓	Increased Compound Return over 20 Years ✓
$1,000	25$	2.5%	-	-
$5,000	30$	0.6%	$22,800	$82,235
$10,000	55$	0.55%	$1,200	$84,400
$15,000	55$	0.36%	$6,840	$92,623

2. Reduce ETF and Fund Fees

Now that fees have your attentions, let's turn to this 2nd rodent eating away at your returns. If you hold any funds or ETFs (and I suggest you do), look at their fees. Fund managers have a bad reputation, but amidst all the bad apples, there are some good ones. Fees come in a variety of cloaks:

1) Sign up fees: If these are above 1%, I run. Often they are stated as 3-5%, but in reality there is a fee waver if you use a broker they partner with. They can also be staggered by the amount of money you have invested with the fund. A good broker will get you in at the highest tier (with the lowest fee), no matter how small your investment is.
2) Annual management fees: If it starts with a 1, it might be worth it for a truly outstanding actively managed fund/ETF. If it is an index tracker, it should be below 0.5%. The lower the better.
3) Success fees: If they charge this *on top* of the management fees, you are being ripped off. Some funds charge only a success fee, say if returns are above 6%, and nothing if they are less. That is a good incentive for the manager.

Say you save 1% in trading fees and 1% in management/sign up fees, you can see from my compounding calculations above that this increase in your wealth is likely to outstrip anything else you will do. FEES MATTER. Get digging for the fees you pay. Call the broker. Call the Fund. Ask them to explain all their fees. Then ask them how you can reduce the fees.

Stop that rodent eating your dollars. Get your free money.

3. Downside Protection

Should we take more risk or less risk to build wealth? Students with smaller portfolios often feel they need to take big risks to *catch up*.

Let me show you what happens when you invest in a **growth stock** that just rallied 50%. You are hoping for another 50% growth. Say you have $1000.

Starting amount $1000

You hit a bear market, where growth and tech stocks sell off.

Growth stock goes down 50%. New investment value: $500

Growth stock recovers 20%. New investment value: $600

Growth stock recovers another 30%. New investment value: $780

Hang on. The Growth stock went down 50% and up 50%, and I am still losing 22% or $220.

Yes! <u>You are down $220. It would take *another* 30% rally to get you back to where you started.</u>

Now let's say you bought a **blue chip tech stock** instead.

Starting amount $1000

Growth stock goes down 5%. New investment value: $950

Growth stock recovers 2%. New investment value: $969

Growth stock recovers another 3%. New investment value: $998

<u>You are down $2. You only need the stock to move up *another* 0.25% to start making money.</u>

What is the lesson? Protect the downside. Build a core portfolio with stocks with less volatility. Or just by the S&P500 (ETF ticker "SPY"). When your portfolio is small you need to carefully protect your funds.

4. Minimise Tax Waste

I do not have huge faith that governments make the best use of my money. Why would they? They have no incentive to do so. I therefore recommend legally minimising your taxes. This will depend on where you live.

Your task: Call 3-5 tax advisors or tax lawyers in your country/state who act for private clients. Say you have a 6 figure (you can also be cagey about the amount if you are not comfortable saying that) stock portfolio and would like to make sure you are following good tax advice. What would be the obvious things you recommend I do? 85% of advisors you call will now give you a 10 minute piece of free advice. After you have spoken to a few, you will start to understand tax rules.

I do recommend hiring a great tax lawyer, when you are ready for it.

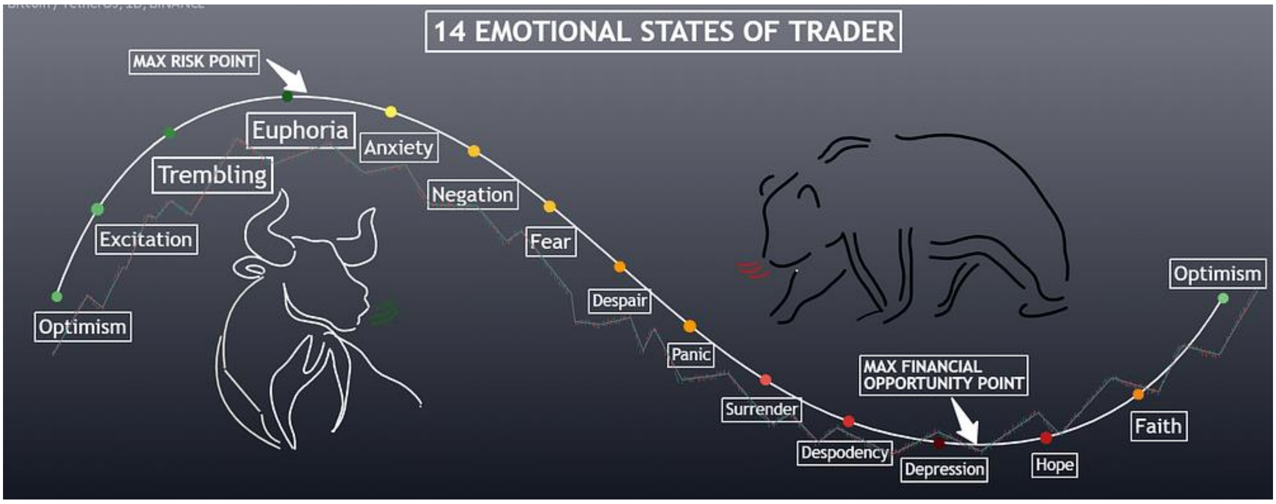
5. Ignore the Experts

Nasdaq will crash 50%. S&P will be up 30% this year.... There are all these talking heads on TV, Youtube, and all over the media. Ignore them. No one knows where the market will be in 12 months. If they did, they would not be talking about it on TV. They would be sipping cocktails on a yacht in the Bahamas. No genuine expert will ever tell you with certainty where a stock will be in 12 months.

6. Ignore the News

If a stock is talked about a lot in the news as the next greatest investment, it is likely the worst time to buy it. Look at the emotional states of the market below. When something is in the news as exciting, you are likely in the Trembling to Euphoria state. Just before the big sell off.

You have 2 options. Pay no attention to news at all, and stoically buy your portfolio of stocks every month. If you cannot resist the FOMO, make a plan that will allow you to buy small increments of this FOMO stock for at least the next 18 months. That means 18 small purchases. This will give you some chance of catching the stock in its down phase.



7. Keep Investing

Have another look at the image in (6.) above. Most retail investors buy stocks from Optimism to Euphoria. They then sell between Panic to Depression. Repeat. The surest way of moving money from regular people into Wall St pockets.

There is one simple cure for this. Buy the same amount of $ every single month on the 1st or 5th of the month (depending on when you get paid). Set aside that investment amount and keep investing it no matter what happens in the market.

Tip: When the market is down, think "I know I am buying shares more cheaply, so I get more for my money".

Use the calculator at https://goatacademy.org/free-guide/ to work out how much that will make you in 20 and 30 years. Print it out and put it on your wall. I love looking at this chart. It keeps me motivated.

Send me an email to felix@goatacademy.org with your questions. I read every email!

I look forward to hearing from you.

Felix