



A MarketRiders Special Report

Aggregate Mutual Fund Fee Report
US IRA Accounts 2009

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As of September 30, 2009, US Households had invested about \$4.1 trillion in IRAs of which \$1.88 trillion was invested in mutual funds, which were subject to an estimated \$24.2 billion in fees, an average of 1.28% of mutual fund investments. MarketRiders estimates that US Households contributed approximately \$77.176 billion to IRAs in 2008. Comparing 2008 contributions with 2009 fees (while not a consistent year comparison) the conclusion is stunning: approximately 30.5% of all IRA contributions went to pay mutual fund fees in the United States.

The remaining funds in IRAs were held in bank and thrift deposits, life insurance companies, and securities in brokerage accounts. This study does not calculate fees paid to financial advisors, insurance brokers and banks for holding and directing IRA accounts, which could probably account for an additional 20% of all IRA contributions.

The Importance of IRA Accounts to Retirees

Most of the money flowing into IRAs is through rollovers of lump-sum distributions from employer sponsored retirement plans. Rollovers from employer-sponsored retirement plans have increased for a few reasons.

As seen in Figure 1 below, as more 401(k) accounts are rolled into IRAs in 2008, the share of household financial assets in IRAs has grown dramatically in this last decade – from 22% to 29%. Therefore, IRAs are becoming more and more of a significant part of US households in the context of retirement objectives.

Figure 1

FINANCIAL CHARACTERISTICS OF IRA OWNERS			
<i>Percentage of U.S. households owning IRAs,¹ selected years</i>			
	2000	2004	2008
Household financial assets in IRAs^{1, 2}			
Less than \$50,000	64	63	55
\$50,000 to \$99,999	14	17	14
\$100,000 to \$249,999	13	14	18
\$250,000 to \$499,999	4	4	7
\$500,000 or more	5	2	6
Median ²	\$25,300	\$28,600	\$40,000
Share of household financial assets in IRAs (median)	22%	21%	29%

¹ IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

² Dollar amounts have been adjusted to 2008 dollars using the "current methods" version of the consumer price index for all urban consumers (CPI-U-RS).

³ Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

⁴ DC retirement plan accounts include 401(k); 403(b); and state, local, or federal plan accounts. The account(s) may be held at current or previous employers.

⁵ For years 2000 and 2004, DB plan coverage includes households where any household member was covered by a DB retirement plan at work. In 2008, DB coverage includes households where any household member was receiving or expecting to receive regular income from a DB plan.

Source: Investment Company Institute IRA Owners Survey

As of September 30, 2009, US Households had invested about \$4.1 trillion in IRAs of which \$1.88 trillion was invested in mutual funds,

Figure 2

46 PERCENT OF IRA ASSETS WERE INVESTED IN MUTUAL FUNDS

IRA assets by type of institution, end-of-period, 1990–2006, 2007:Q1–2009:Q3

	Mutual funds		Bank and thrift deposits ¹		Life insurance companies ²		Securities held in brokerage accounts ³		Total assets (billions)
	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	
2006	2,029	48	313	7	318	8	1,548 ^P	37	4,207 ^P
2007:Q1	2,098	48	320	7	319 ^e	7	1,612 ^e	37	4,348 ^e
2007:Q2	2,235	48	328	7	325 ^e	7	1,736 ^e	38	4,623 ^e
2007:Q3	2,321	48	333	7	327 ^e	7	1,822 ^e	38	4,802 ^e
2007:Q4	2,305	48	340	7	325 ^e	7	1,814 ^P	38	4,784 ^P
2008:Q1	2,164	48	351	8	321 ^e	7	1,709 ^e	38	4,545 ^e
2008:Q2	2,154	48	359	8	320 ^e	7	1,700 ^e	37	4,534 ^e
2008:Q3	1,924	46	370	9	322 ^e	8	1,526 ^e	37	4,143 ^e
2008:Q4	1,592	44	391	11	310 ^e	9	1,286 ^e	36	3,579 ^e
2009:Q1	1,497	44	410	12	309 ^e	9	1,212 ^e	35	3,428 ^e
2009:Q2	1,684	45	424	11	309 ^e	8	1,341 ^e	36	3,757 ^e
2009:Q3	1,879	46	429	10	311 ^e	8	1,475 ^e	36	4,093 ^e

¹Bank and thrift deposits include Keogh deposits.

²Life insurance company IRA assets are annuities held by IRAs, excluding variable annuity mutual fund IRA assets, which are included in mutual funds.

³Securities held in brokerage accounts exclude mutual fund assets held through brokerage accounts, which are included in mutual funds.

⁴Share is the percentage of total IRA assets.

^eData are estimated.

^PData are preliminary.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

As of September 30, 2009, 46.1 million U.S. households had some type of IRA.

Figure 3

MILLIONS OF U.S. HOUSEHOLDS OWN IRAS

	Year created	Number of U.S. households with type of IRA, ¹ 2009	Percentage of U.S. households with type of IRA, ¹ 2009
Traditional IRA	1974 (Employee Retirement Income Security Act)	36.6 million	31.2%
SEP IRA ²	1978 (Revenue Act)	9.6 million	8.2%
SAR-SEP IRA ²	1986 (Tax Reform Act)		
SIMPLE IRA ²	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	17.0 million	14.5%
Any IRA ¹		46.1 million	39.3%

¹Households may own more than one type of IRA.

²SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs are employer-sponsored IRAs.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

Of these IRAs, the mean account value is \$109,400. The older the IRA account holder is, the more than amount. Therefore, those holding smaller IRA balances are generally under 35 years of age. The more precise distribution of IRA balances is shown below.

Figure 4

TRADITIONAL IRAS PRESERVE ASSETS FROM EMPLOYER-SPONSORED RETIREMENT PLANS
Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2009

	Traditional IRA includes rollover from employer-sponsored retirement plan ¹	Traditional IRA does not include rollover from employer-sponsored retirement plan ²
Traditional IRA assets		
Mean	\$109,400	\$64,000
Median	\$40,000	\$20,000
Household financial assets³		
Mean	\$301,700	\$282,700
Median	\$150,000	\$200,000

¹Fifty-four percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.
²Forty-six percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans.
³Household financial assets include assets in employer-sponsored retirement plans, but exclude the household's primary residence.
Source: Investment Company Institute IRA Owners Survey

As seen in Figures 5 and 6, while households can contribute as much as \$6000 per year to an IRA including the “make-up” amount for a person over 50 years old, the median contribution per household is \$4000.

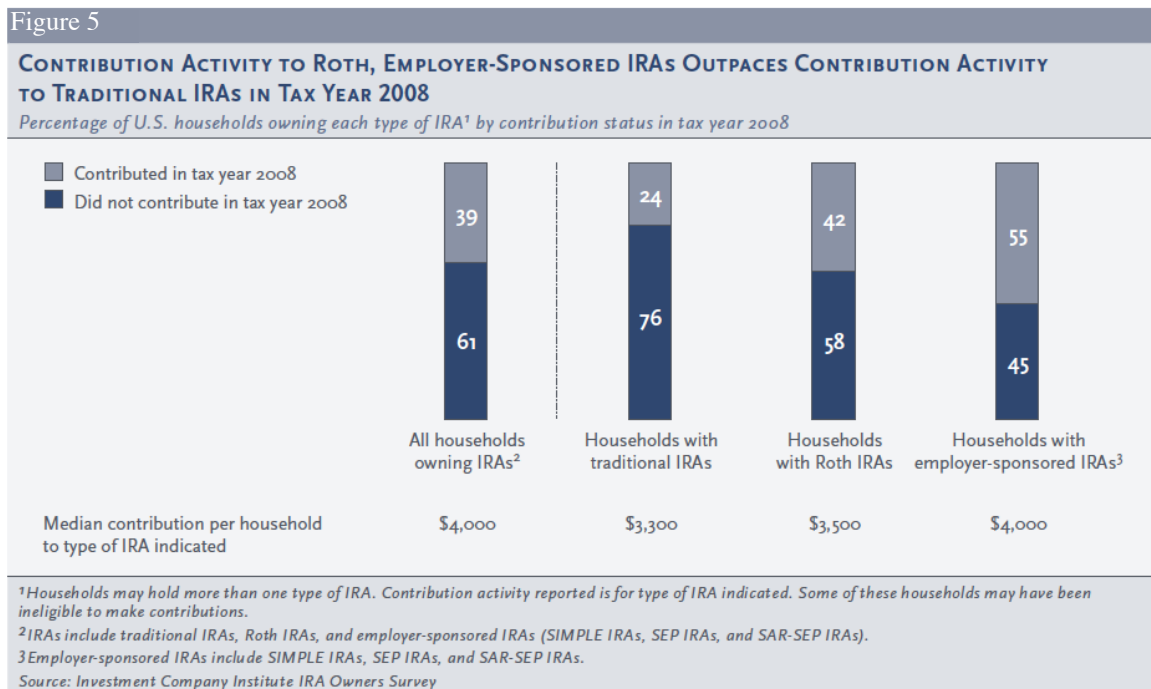


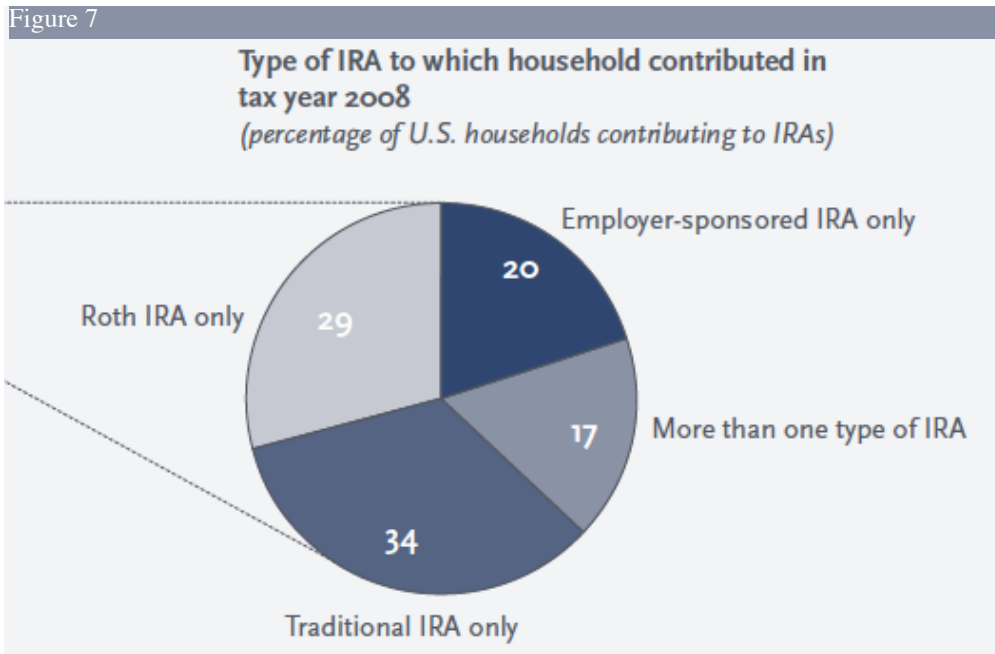
Figure 6

INTERNAL REVENUE CODE TRADITIONAL AND ROTH IRA CONTRIBUTION LIMITS, 2001–2010



*After 2008, traditional IRA contributions are indexed for inflation in \$500 increments. IRA catch-up contributions are not indexed for inflation.
Source: ICI summary of U.S. Internal Revenue Code

Of those who contributed in 2008, here was the distribution. Multiplying the average \$4000 average contribution by these percentages, shows us that approximately \$77.176 billion was contributed to IRAs.



Of the \$1.88 trillion invested in mutual funds, the amounts spread between various types of mutual funds is multiplied by the average mutual fund fees for each category to arrive at \$23.54 billion paid in mutual fund fees through IRA accounts. This amounts to 30.5% of all contributions on a macro level.

Figure 9

IRA HOLDINGS OF MUTUAL FUNDS BY TYPE OF FUND
End-of-period, 1990–2006, 2007:Q1–2009:Q3

	Domestic equity		Foreign equity		Hybrid ¹		Bond		Money market		Total assets (billions)
	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	
2005	938	55	207	12	226	13	186	11	144	8	1,701
2006	1,074	53	289	14	282	14	206	10	178	9	2,029
2007:Q1	1,088	52	308	15	301	14	215	10	186	9	2,098
2007:Q2	1,154	52	342	15	322	14	222	10	196	9	2,235
2007:Q3	1,178	51	366	16	337	15	229	10	211	9	2,321
2007:Q4	1,137	49	369	16	339	15	237	10	225	10	2,305
2008:Q1	1,017	47	333	15	324	15	245	11	248	11	2,164
2008:Q2	1,014	47	330	15	328	15	248	12	239	11	2,154
2008:Q3	877	46	258	13	294	15	242	13	257	13	1,924
2008:Q4	660	41	190	12	241	15	229	14	273	17	1,592
2009:Q1	586	39	164	11	222	15	244	16	281	19	1,497
2009:Q2	688	41	205	12	258	15	271	16	262	16	1,684
2009:Q3	789	42	246	13	296	16	302	16	246	13	1,879

¹Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of lifecycle and lifestyle mutual funds is counted in this category.
²Share is the percentage of total mutual fund assets in IRAs.
 Note: Components may not add to the total because of rounding.
 Source: Investment Company Institute

Below are fees charged by mutual funds for various types of products depending upon the investment objective.

Figure 10

Investment objective	10th percentile	Median	90th percentile	Average (asset-weighted)	Average (simple)
Equity funds	0.79	1.39	2.22	0.84	1.46
Aggressive growth	0.89	1.44	2.24	1.02	1.53
Growth	0.76	1.30	2.12	0.90	1.39
Sector funds	0.91	1.54	2.36	0.95	1.61
Growth and income	0.49	1.17	1.97	0.57	1.23
Income equity	0.75	1.20	1.97	0.80	1.30
International equity	0.94	1.55	2.36	1.00	1.61
Hybrid funds	0.69	1.26	2.05	0.78	1.35
Bond funds	0.50	0.95	1.71	0.63	1.07
Taxable bond	0.49	0.97	1.78	0.66	1.07
Municipal bond	0.54	0.92	1.62	0.63	1.05
Money market funds	0.20	0.55	1.04	0.39	0.60

*Variable annuities and mutual funds that invest primarily in other mutual funds are excluded.
 Sources: Investment Company Institute; Lipper; © CRSP University of Chicago, used with permission, all rights reserved (312.263.6400/www.crsp.com); and Strategic Insight Simfund

By multiplying these fees against the amount of invested capital by product in US mutual funds, we calculate the total fees charged by the mutual fund industry against US IRA accounts.

Figure 11

	% Fee	Q3 2009 Invested	Total Fees
Equity Funds	1.46%	\$ 789,000,000	\$ 11,519,400
International Equity	1.61%	\$ 246,000,000	\$ 3,960,600
Hybrid Funds	1.35%	\$ 296,000,000	\$ 3,996,000
Bond Funds	1.07%	\$ 302,000,000	\$ 3,231,400
Money Market Funds	0.60%	\$ 246,000,000	\$ 1,476,000
		\$ 1,879,000,000	\$ 24,183,400

While it is difficult to find all of the fees, investors can find them if they know where to look. MarketRiders suggests this approach:

1. Management fees. If you own mutual funds, you are paying fees for managing your money. Look each fund up on Yahoo or Morningstar and find the “management fee.” Multiply it by the amount you own of the fund.
2. Marketing fees. Then look for 12b-1 marketing fees and sales loads. Upfront loads are charged the first year and 12b-1 fees are charged every year. Multiply these by the amount you own of the fund.
3. Asset management fees. Find the broker or agent who handles your account on your brokerage statement and call them. Ask if there are fees for overseeing your entire account, and if so, what they were in actual dollars for 2009, and how they were calculated. Were you charged on your stocks, bonds, mutual funds, and cash?

MarketRiders, Inc. is pioneering a new do-it-yourself investing movement. Through its easy-to use online portfolio manager, in 2 hours a year, anyone can now build and manage their own diversified ETF portfolio, lower their risk, and save on the onerous mutual fund fees which typically siphon away 33 percent of a portfolio over 15 years. MarketRiders software watches the portfolio 24x7 and tells investors when it’s time to rebalance. For more information, visit www.marketriders.com.

Source: Reports from the Investment Company Institute
 “The Role of IRAs in U.S. Households’ Saving for Retirement, 2009” -- January 2010
 “The U.S. Retirement Market, Third Quarter 2009” – February 2010
 “2009 Investment Company Fact Book”

Long Term Effects of Mutual Fund Fees

In order to fully document the devastating effects of mutual fund and advisory fees over long periods of time, MarketRiders constructed 2 portfolios, both using an asset allocation of 40% Bonds and 60% Equities including US, World, Emerging Markets, Foreign Developed Markets, Real Estate and Commodities. The portfolios are:

1. Mutual Fund Portfolio. A portfolio of 4 Star Morningstar mutual funds including 21 funds from firms such as Lord Abbett, Eaton Vance, Loomis, Pimco, Fidelity, Putnam and others. This portfolio had a 1.39% blended yearly fees and 1.26% blended load. All funds have minimum assets under management of \$500 million.
2. ETF Portfolio. A portfolio of low cost, popular ETFs, primarily from Vanguard with a blended fee of .21%.
3. Mutual Fund Portfolio with Advisor. Using the portfolio from #1 above, MarketRiders assumed an additional 1% cost for a wealth manager or financial advisor who was working with the IRA holder to pick the mutual funds.

Using a blended 7.5% yearly return with \$4000 yearly contributions, MarketRiders simulated how much the IRA would have grown using each of the 3 portfolios. This was done for a 35, 45, 55, and 65 year old. Each portfolio began with \$100,000.

The tables on the following page show that for a 35 year old, the Low Fee ETF Portfolio would have grown to \$3.148 million, while the Mutual Fund Portfolio would have grown to \$2.039 million. The Mutual Fund Portfolio lost \$1.109 million to fees and would have had to gain 54.4% in order to “catch up” to the ETF portfolio. This creates a severe “handicap” for the mutual fund portfolios. Using an advisor aggravates the returns even further as shown in the table.

Asset Allocation	Mutual Fund Name*	Initial Investment	Yearly Mutual Fund Fees	Upfront Load
Bonds (40%)				
7.0%	Lord Abbett Short Duration Income C	\$ 7,000	\$ 112	\$ -
7.0%	Eaton Vance Strategic Income C	\$ 7,000	\$ 125	\$ -
7.0%	AllianceBern High Income A	\$ 7,000	\$ 67	\$ 298
5.0%	Loomis Sayles Investment Grade Bond C	\$ 5,000	\$ 78	\$ -
5.0%	PIMCO Investment Grade Corp Bd A	\$ 5,000	\$ 45	\$ -
4.0%	Fidelity Advisor Strategic Income C	\$ 4,000	\$ 70	\$ -
5.0%	Putnam American Government Income A	\$ 5,000	\$ 47	\$ 200
Commodities (5%)				
5.0%	Tocqueville Gold	\$ 5,000	\$ 75	\$ -
World Equity				
3.5%	Templeton Global Opportunities A	\$ 3,500	\$ 47	\$ 201
Emerging Mkts. (6.5%)				
6.5%	American Funds New World C	\$ 6,500	\$ 124	\$ -
Foreign Dev. (9%)				
3.3%	Allianz NFJ International Value A	\$ 3,333	\$ 45	\$ 183
3.3%	AIM International Growth A	\$ 3,333	\$ 51	\$ 183
3.3%	American Funds EuroPacific Gr B	\$ 3,333	\$ 52	\$ -
Real Estate (10%)				
6.7%	Virtus Real Estate Securities A	\$ 6,700	\$ 107	\$ -
3.3%	ING Global Real Estate A	\$ 3,300	\$ 47	\$ 190
US Equity (25%)				
4.0%	Goldman Sachs Small Cap Value A	\$ 4,000	\$ 60	\$ -
4.0%	Baron Growth	\$ 4,000	\$ 54	\$ -
4.3%	The Delafield Fund	\$ 4,250	\$ 54	\$ -
4.3%	T. Rowe Price Mid-Cap Growth Adv	\$ 4,250	\$ 44	\$ -
4.3%	Eaton Vance Large-Cap Value A	\$ 4,250	\$ 43	\$ -
4.3%	Franklin DynaTech A	\$ 4,250	\$ 50	\$ -
100.0%		\$ 100,000	\$ 1,394	\$ 1,255
	Fees		1.39%	

ETF Name	Initial Investment	Yearly ETF Fees
Vanguard Short-Term Bond	\$ 7,000	\$ 10
Vanguard Total Bond Market	\$ 7,000	\$ 10
Vanguard Total Bond Market	\$ 7,000	\$ 10
Vanguard Intermediate-Term Bond	\$ 5,000	\$ 7
Vanguard Intermediate-Term Bond	\$ 5,000	\$ 7
Vanguard Total Bond Market	\$ 4,000	\$ 6
Vanguard Long-Term Bond	\$ 5,000	\$ 7
SPDR Gold Shares	\$ 5,000	\$ 20
Vanguard FTSE All-World ex-US	\$ 3,500	\$ 9
Vanguard Emerging Markets Stock	\$ 6,500	\$ 18
iShares MSCI EAFE Index	\$ 3,333	\$ 11
iShares MSCI EAFE Index	\$ 3,333	\$ 11
iShares MSCI EAFE Index	\$ 3,333	\$ 11
SPDR DJ Wilshire REIT	\$ 6,700	\$ 17
SPDR DJ Wilshire Intl Real Estate	\$ 3,300	\$ 19
Vanguard Small Cap Value	\$ 4,000	\$ 6
Vanguard Small Cap Growth	\$ 4,000	\$ 6
Vanguard Mid-Cap Value	\$ 4,250	\$ 6
Vanguard Mid-Cap Growth	\$ 4,250	\$ 6
Vanguard Mega Cap 300 Value Index	\$ 4,250	\$ 6
Vanguard Mega Cap 300 Gr Index	\$ 4,250	\$ 6
	\$ 100,000	\$ 207
Fees		0.21%

Amount in IRA at age 76 with \$4000 yearly contributions assuming 7.5% yearly return

Starting Age	Mutual Fund Portfolio	Low Fee (ETF) Portfolio	Threshold To Repay Fees	
			\$	%
35	\$ 2,039,000	\$ 3,148,000	\$ (1,109,000)	54.4%
45	\$ 1,098,000	\$ 1,528,000	\$ (430,000)	39.2%
55	\$ 577,000	\$ 728,000	\$ (151,000)	26.2%
65	\$ 269,000	\$ 306,000	\$ (37,000)	13.8%

	Mutual Funds & Advisor	Low Fee (ETF) Portfolio	Threshold To Repay Fees	
			\$	%
35	\$ 1,432,000	\$ 3,148,000	\$ (1,716,000)	119.8%
45	\$ 839,000	\$ 1,528,000	\$ (689,000)	82.1%
55	\$ 479,000	\$ 728,000	\$ (249,000)	52.0%
65	\$ 244,000	\$ 306,000	\$ (62,000)	25.4%

* All mutual funds carry high Morningstar Rating (4 Star) and are from most popular fund families with average \$1.5b of assets in each fund.