

For private investors: how to beat the system

You needn't pay high fees to banks and other investment managers to reap the benefits of today's lucrative market opportunities. Here's one way of going about it.

Nowadays the financial industry offers too many products for the average brain to manage efficiently. The average private investor only has the capacity to develop expertise within one or two specific areas, such as commodities, foreign exchange, stocks, bonds, options and so on.

Even within the different areas, gathering and analysing the appropriate information is an impossible workload for a single individual. Due to world globalization and the development of multinational companies, the stock market requires a very large work force to allow for a decent follow-up of the market.

As a private investor, you cannot say that you have the necessarily relevant information to invest in a multinational company unless you or someone from your staff can visit the different companies, producers and distributors that interact with this target organization.

Investment funds: the way to invest

Within banks, asset managers must spend their time sorting out their client's needs and problems. An average manager will have from 100–500 customers to take care of. They do not have the physical capacity to allow for market study and stock picking.

The way to invest money is to use the services of those who allocate sufficient resources and expertise to their financial market segment. These are investment funds: they do not need to handle customers and only have to focus on the market and performance of the underlying stocks.

Most banks understand this. The use of third-party funds is increasing. It is a lot cheaper for a bank to select a specialist



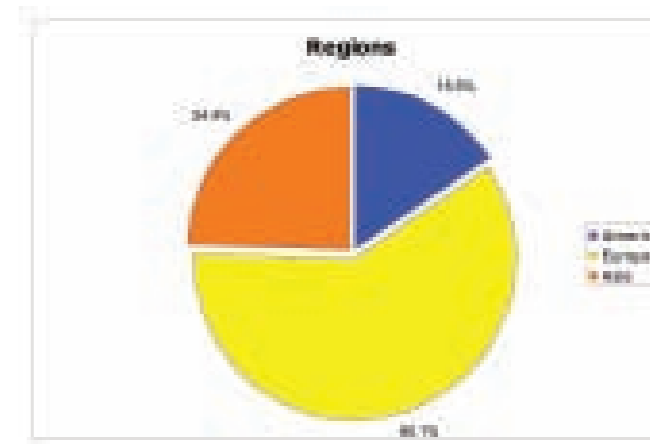
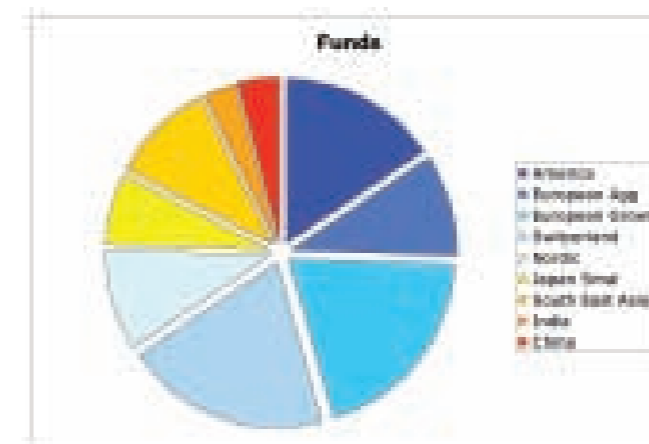
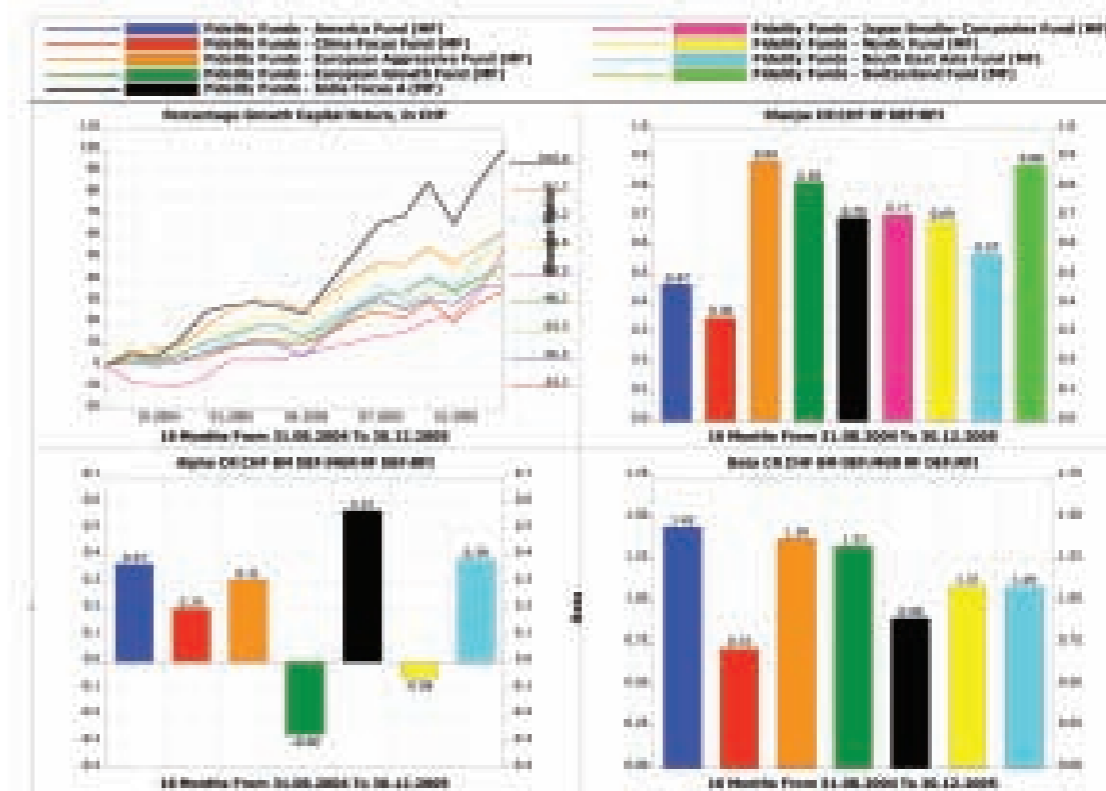
for a specific investment, rather than setting up a full team of analysts and portfolio managers.

So banks advise their customers to invest through mutual funds instead of spending time and money for effectively lower-quality stock picking.

Gain economies of scale

An important feature of funds—besides expertise and performance—is that they allow for economies of scale. Large transactions permit reduced brokerage fees and the fund managers can obtain better prices on the products they trade. Administration expenses decrease significantly since funds only trade with one account, contrary to banks that will need to dispatch the transactions over numerous small accounts.

Mutual fund management companies include within their reported performances all necessary expenses required for an investment in the financial market. Fees for administration, brokerage, custody, distributors, etc are



included in the fund's performances.

So the question is: Why pay administration, custody and other fees again to a bank if everything is already paid for at the fund's level, including a decent retrocession to the bank?

How to do it

We estimate that, on average, banks in Switzerland charge their customers between two and three percent of their capital per year. Only a few wise investors are aware that they can discuss the fees and get better prices from their bank; even fewer know that they can invest directly with the funds and avoid paying the same fees twice. For example, over 10 years, adding a couple of percentage points per annum by saving on fees can result in a significant increase of your performance.

For some very rich individuals it is even more critical. They often use the services of a private manager that will help them open an account with one of the famous private

banks and, in the end, they will invest in the same funds as others. They actually pay three times for the same investment. Very clever.

There are now a couple of companies in Switzerland that allow private individuals to place their money directly with investment funds. With these companies, private investors must figure out precisely all extra costs in order to avoid unwanted costly surprises. Banks will face increasing competition in this area and will need to go through some restructuring in order to compete effectively. «««

For further information on how you can benefit from cost-effective investment solutions and gain direct access to investment funds, contact Michel Thibault at Sotramar SA for a no-obligation evaluation of your investment needs (tel: +42-(0)21 802 00 37; fax: +41 (0)21 802 00 39; e-mail: thibault@sotramar.ch