

Low-cost index funds the first option for most retirement investors

ALMOST 95 percent of actively managed domestic general equity funds in South Africa have underperformed the FTSE/JSE All Share Index over the 20 years to December 31 last year.

Put simply, 19 of 20 South African fund managers have delivered results below the market index over 20 years.

Although this ratio improves as the period decreases, still more than 85 percent of funds underperform the index over five years and 61.5 percent underperform it over one year.

"Investors are led to believe that professional managers reliably beat the market index, but after costs the index beats professionally managed funds most of the time," says Steven Nathan, chief executive of 10X Investments.

"Sadly, it is investors that foot the bill for the underperformance of active management. Active management is premised on the notion that their fund managers can identify the stocks that will out- or under-perform the market and thus deliver their investors an

above-average return. But the return of the market is finite, so active management is a zero-sum game before costs. Yet investors are faced with hundreds of investment choices, which all come with fees for active fund managers and commission-driven brokers."

John C Bogle, founder of The Vanguard Group, one of the two largest mutual fund organisations in the world, says trying to beat the market is a loser's game – the more the managers and brokers take, the less investors make.

"The result is low investor returns in an industry where fees are the most dependable indicator of a fund's future performance. On average in South Africa, aggregate fees reduce the real (after-inflation) investment return by about 75 percent," says Nathan.

"It is estimated that 94 percent of South Africans don't have adequate financial resources at retirement. Clearly the industry is failing investors. We plan to change this."

Some of the most respected financial minds agree that

index funds are the first option for most retirement investors.

"A low-cost index fund is the most sensible equity investment for the great majority of investors," says Warren Buffett, chairman of Berkshire Hathaway.

Nathan says an index fund seeks to mirror the performance of the stock market by investing directly in the shares that make up the market. He describes this model as simple and elegant.

"In fact, when people first learn about indexing they often

react in disbelief at its sheer simplicity and effectiveness. People often hold the misconception that a successful investment has to be complex and complicated. This is completely untrue. The simple truth is that index funds beat most professional managers. As the cost of indexing is lower than active management, on average it delivers a higher return to investors than active management. Index investing allows retirement investors to get the most out of their investment."

10X provides corporate

retirement investment to leading blue-chip companies including Deutsche Bank, I-Net Bridge, African Bank and Macquarie. In 2011 it introduced a solution to the retirement industry problem for individual investors. The 10X RA is an innovative direct retirement investment, allowing investors to extract the most out of their investment through low fees, automatic life-stage portfolios and excellent service.

Nathan says 10X is different. "Our model offers investors a simple, direct, low-fee solu-

tion to the retirement industry problem. It cuts out the middle man, reduces fees through index investing and delivers best practices to investors. As 10X is a direct investment there are no brokers, so no broker fees. All this means that 10X has low fees – around half the industry average.

"Direct low-cost index investing offers investors a higher return at lower risk. We believe that it is going to change the future of retirement investing in South Africa," says Nathan.