WHAT IS TRUE COST OF "COMMISSION FREE STOCK TRANSACTIONS?"

Investors often believe that stock transaction costs are "free" when they read about "commission free" trades with brokerage firms. However, they are rarely advised in a clear manner regarding the inside gains brokers may receive on each transaction between the bid and asked price - the spread.

For example, brokers may buy a stock for a client at $10.00, add a $00.20 charge, then report to the client that it was bought "commission free" for $10.20. The same process may happen when brokers sell a stock for a client at $10.00, deduct a $00.20 charge, then report that it was sold "commission free" for $9.80. The amounts of the markups/markdowns vary, and are ultimately regulated by the following:

1. 1934 U.S. Securities and Exchange Commission Act - Rule 10b-5.
   Generally a 10% maximum.
2. 1943 NASD, now FINRA (the brokerage industry's "self-regulating" body), Rules of Fair Practice, Article III, Section 4.
   Their guidelines suggest a maximum 5%.

   Markups/markdowns on debt securities are generally expected to be lower.

Although this and other "front running" practices (payment for order-flow, order flow delays, etc.) are illegal and enforced in some countries, estimates suggest they generate up to $250 billion annual revenue to U.S. licensed brokers. These unnecessary charges and subjective management techniques probably cost U.S. investors at least $400 billion and global investors $1 trillion per annum.

Forecasted annual global balanced (50% stock/50% bond) returns and inflation over the next ten-years are expected to be around 4.1% and 2.0% respectively - *before fees and taxes*. To increase purchasing power successful investors must clearly understand and control their total portfolio expenses, estimated to be at least 1.3%, and their taxes.

To maximize results in this era of lower expected returns, below are several suggestions:

1. Require your managers to be fiduciaries. This means they are legally required to place your interest first! They should also minimize brokerage, custodial, and other expenses, and not participate in revenue agreements.
2. Use a passive fiduciary unless you have high confidence in an active manager.
3. Feel confident that your annual aggregate portfolio expenses do not exceed 0.5%. This not only increases your returns but also reduces risks!
4. Implement simple solutions to reduce federal and state taxes.

Midwest Asset is a financial fiduciary, and can help in these and other important areas. **For a comprehensive, complimentary expense analysis of your taxable and/or non-taxable accounts** email **james.byrd@quantmanagement.com** or **call 1-608-273-2900.**

$250,000 minimum please.

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