

Below is an analysis I presented to a client. The client had their funds at an expensive brokerage firm. Amazingly, the brokerage firm was allowed to call themselves a fiduciary. This may be legal but most wouldn't view their actions as fiduciary.

Analysis

All your SEI funds are actively managed. This means that the funds are trying to beat the market. This is costly and seldom works. Your total annual mutual fund expense is 0.95% (\$6670). Plus, you are paying a management fee of 1% for a whopping annual fee of 1.95% (\$14,500)! A portfolio of low-cost index funds would cost .07% (\$450) annually. There would be no management fee. You don't need a money manager.

The saying that "you get what you pay for" doesn't work in investing. It's no surprise that you are underperforming a portfolio of comparable index funds by 2.2% on an annualized over the last five years (3.43% vs. 5.6%). **That amounts to a \$77,700 difference in ending portfolio values.**¹ You might compare your past annual returns to [Vanguard's Life Strategy Moderate Growth Fund](#). Your current portfolio is similar.

The table below shows the annual expense of your funds, excluding the extra 1% management fee. Also listed are the fund returns over the last five years. Fund returns are reported net of cost. Where possible, I compared the returns to those of similar index funds. For example, SEI emerging market debt returned 5.71% less on an annualized basis over the last 5 years than the index fund (2.52% vs 8.23%). Some funds have no comparable index fund. **Note that ten of the sixteen funds with comparable indexes underperformed the index fund by than more than their cost.** This implies that they're making bets against the market and getting them wrong.

¹ The funds in question total \$699,700. Five years ago they totaled $\$592,059 = 699,700 / (1.034^5)$, where 3.4% was the return of your current allocation and ^5 means to the fifth power. This assumes you held these funds for five years. That same \$592,059 would have grown to \$777,472 if it had been invested in the index fund portfolio.

Ticker	Name	% Expense Ratio	% 5 year tax cost	Total Return 5 Year	% 5 yr Index return	5 yr % +/- index fund	Index fund
COIAX	SEI Conservative Income F (SIMT)	0.30					
SDYAX	SEI Dynamic Asset Allocation F (SIMT)	0.75		NONE			
SITEX	SEI Emerging Markets Debt F (SIT)	1.36	0.89	2.52	8.23	(5.71)	VEGBX
SIEMX	SEI Emerging Markets Equity F (SIT)	1.70	0.32	2.13	1.73	0.40	VEMAX
SVTAX	SEI Global Managed Volatility F (SIMT)	1.11		4.46	7.12	(2.66)	VHGEX
SEOXX	SEI Government F (SDIT)	0.20		0.96			
SHYAX	SEI High Yield Bond F (SIMT)	0.89		3.40	4.71	(1.31)	VWEAX
SEIMX	SEI Intermediate-Term Municipal F (STET)	0.63		3.22	3.66	(0.44)	VWIUX
SEITX	SEI International Equity F (SIT)	1.10	0.48	1.07	1.84	(0.77)	VTIAX
SLGAX	SEI Large Cap F (SIMT)	0.89		6.61	9.94	(3.33)	
SMSAX	SEI Multi Strategy Alternatives F (SIMT)	1.44		1.45			NONE
SAAAX	SEI Multi-Asset Accumulation F (SIMT)	1.17		3.78			NONE
SCLAX	SEI Multi-Asset Cap Stability F (SIMT)	0.62		1.83			NONE
SIOAX	SEI Multi-Asset Income F (SIMT)	0.80		4.00			NONE
SIFAX	SEI Multi-Asset Inflation Mgd F (SIMT)	1.52		(1.58)			NONE
SRAAX	SEI Real Return F (SIMT)	0.45		1.65	1.94	(0.29)	VTAPX
SUMAX	SEI Short Duration Municipal F (STET)	0.63		0.95	2.15	(1.20)	VMLUX
TCSGX	SEI Short-Duration Government F (SDIT)	0.48		1.87	2.05	(0.18)	VFIRX
SLLAX	SEI Small Cap F (SIMT)	1.14		(0.10)	8.06	(8.16)	VEXRX
SEATX	SEI Tax-Advantaged Income F (STET)	0.86	1.31	4.77			NONE
TFCAX	SEI Tax-Free Conservative Income F (SIMT)	0.30		NONE			
SMINX	SEI Tax-Managed Intl Mgd Vol F (SMIT)	1.11		NONE			
TMLCX	SEI Tax-Managed Large Cap F (SIMT)	0.89	0.76	6.62	9.85	(3.23)	VTCLX
TMMAX	SEI Tax-Managed Mgd Volatility F (SIMT)	1.00	1.21	6.57	6.86	(0.11)	VEIPX
STMSX	SEI Tax-Managed Small/Mid Cap F (SIMT)	1.11	0.68	1.27	3.67	(2.40)	VTMSX
SECPX	SEI Ultra Short Duration Bond F (SDIT)	0.38		1.76	1.89	(0.13)	VUSFX
SVOAX	SEI US Managed Volatility F (SIMT)	0.93	1.98	5.48	6.14	(0.66)	VVIAX
TRVLX	T. Rowe Price Value	0.78		4.27	6.14	(1.87)	VVIAX
HYD	VanEck Vectors High-Yield Municipal ETF	0.35		3.72			NONE
EMLC	VanEck Vectors JP Morgan EM LC Bd ETF	0.30		1.27			NONE
		0.95		3.43			

Fund returns are reported net of cost but not net of taxes. Actively managed funds like yours are continually buying and selling securities. Any gains must be distributed to you. You likely reinvest these but you still get a 1099 and they are still reported on your taxes unless the funds are held in a retirement account (Roth, IRA, 401k). By contrast, index funds simply buy and hold. Only dividends are distributed which are taxed at 15% at the federal level and taxed like ordinary income at the state level. The current dividend yield in the US market is 1.4% which implies you'd lose about 0.3% to taxes annually. Morningstar reports a 5 year "tax cost ratio" that explains the annualized loss to taxes for someone in the highest tax bracket. I've added those in the table above to the funds your hold in your joint, non-retirement account.

While the above comparison uses specific index funds, this table compares SEI fund returns to the Morningstar category or industry average. Alpha explains the excess return that active management provides. These are awful.

Ticker	Name	% Expense Ratio	3 Yr Return +/- Cat or Ind	5 Yr Return +/- Cat or Ind	10 Yr Return +/- Cat or Ind	Alpha 3 Year	% Turnover Ratio	% Tax Cost Ratio 5 Year
COIAX	SEI Conservative Income F (SIMT)	0.3	-0.52			-0.02		
SDYAX	SEI Dynamic Asset Allocation F (SIMT)	0.75	0.15	-0.19		-1.58	16	0.97
SITEX	SEI Emerging Markets Debt F (SIT)	1.36	-1.99	-0.54	-1.84	-2.85	95	0.87
SIEMX	SEI Emerging Markets Equity F (SIT)	1.71	-1.01	0.56	-1.11	-0.13	90	0.3
SVTAX	SEI Global Managed Volatility F (SIMT)	1.11	-7.44	-7.05	-0.43	-0.78	86	1.67
SHYAX	SEI High Yield Bond F (SIMT)	0.89	0.88	1.62	0.83	2.48	88	2.91
SEIMX	SEI Intermediate-Term Municipal F (STET)		0.18	0.06	-0.11	-0.74		0.02
SEITX	SEI International Equity F (SIT)	1.11	0.13	-0.09	-0.13	-0.57	102	0.47
SLGAX	SEI Large Cap F (SIMT)	0.89	-1.87	-0.96	-0.62	-4	63	1.71
SMSAX	SEI Multi Strategy Alternatives F (SIMT)	1.72	1.22	0.9	-0.29	-0.59	527	0.78
SAAAX	SEI Multi-Asset Accumulation F (SIMT)	1.17	1.16	-0.47		-0.08	61	2.14
SUMAX	SEI Short Duration Municipal F (STET)		-0.64	-0.45	-0.8	-0.69		0
TCSGX	SEI Short-Duration Government F (SDIT)	0.48	-0.14	0.06	0.02	0.47	230	0.66
SLLAX	SEI Small Cap F (SIMT)	1.14	-11.94	-9.93	-5.06	-5.23	149	1.19
SEATX	SEI Tax-Advantaged Income F (STET)	0.86	-2.91	-2.35	-1.36	1.73	43	1.33
TFCAX	SEI Tax-Free Conservative Income F (SIMT)	0.3	-1.46			-0.52		
SMINX	SEI Tax-Managed Intl Mgd Vol F (SMIT)	1.11	-1.14			-4.6	79	
TMLCX	SEI Tax-Managed Large Cap F (SIMT)	0.89	-1.85	-1.02	-0.63	-3.42	40	0.84
TMMAX	SEI Tax-Managed Mgd Volatility F (SIMT)	1	0.33	-1.73	1.4	-3.89	27	1.05
STMSX	SEI Tax-Managed Small/Mid Cap F (SIMT)	1.11	-1.46	-1.37	-0.86	-7.05	90	0.66
SECPX	SEI Ultra Short Duration Bond F (SDIT)	0.38	0.26	0.12	0.2	0.05	70	0.72
SVOAX	SEI US Managed Volatility F (SIMT)	0.9	-0.43	-2.35	1.16	-5.2	77	1.74
sei	sei	0.96	-1.39	-1.33	-0.57		107.39	1.05

Why these funds and not iShares or Vanguard funds? Your current advisor is registered with the state and SEC as Redacted Advisors (RA). The RA customer relationship summary discloses this:

When we act as your investment adviser, we have a fiduciary duty to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they affect the recommendations we provide you. Here are some examples to help you better understand what this means.

How someone can act in your best interest if they are also allowed to act on their conflict is a mystery. Yet, it's legal if disclosed.

More specifically, RA's form ADV discloses this: (IAR-investment advisor rep, TPA-third party asset managers):

████ and █████ IARs have a potential conflict of interest to recommend selections of TPA's that would result in higher advisory fees paid to █████, including recommendations to the SEI program for which █████ receives 100% of the advisory fee. █████ attempts to mitigate this conflict by reviewing that the TPAs and TPA programs selected by clients are consistent with the client's stated investment profile. █████ also has a fiduciary obligation to make recommendations based solely on your objectives and needs.

It's clear that this advisor has not mitigated this conflict.

Besides the high cost, there is needless complexity. You have 30 actively managed funds. This doesn't imply diversification since these are all subsections of what could be a simple three fund "market cap" portfolio comprised of: total US stock market index fund, total international stock market index fund and total US bond market index fund. You'd hold all the worlds tradable stocks. This is as diversified as you could get with no overlap between the funds. You have a lot of overlap within this portfolio:

- Microsoft is in 10 of your mutual funds
- Nexta in 6
- Apple in 7
- Amazon in 7
- Johnson and Johnson in 8
- Facebook in 7
- Etc

Needless complexity is a standard brokerage strategy to give the impression that they are doing something complex and valuable.

Recommendation

- This is a market portfolio with a slight value tilt.
- The investments with the highest expected returns (US and International value) are first allocated to Jane's Roth. The preferred location for investments with the highest expected returns are, in order: Roth, taxable, tax deferred (401k, IRA).
- We'll keep your low cost index funds and stocks within your two joint accounts and sell the SEI funds. The tax bill will be about \$4600. You'll make this back in lower cost within two years. The proceeds from the sold SEI funds will be invested in the same manner as Jane's Roth.
- All of the TSP is invested in the G Fund. This fund provides a rare free lunch. You get intermediate term gov't bond yield without incurring interest rate risk. That's the risk that bond prices will decline if interest rates were to increase. To take advantage of this attribute the TSP L funds allocate 80% of the bond portion to the G Fund and the remainder to the F Fund which is the total US bond market index. It should be noted that Bill could transfer his IRA into his TSP account. This will allow him to put more into the G Fund.
- The remainder of the bond allocation will go in your IRAs. Bonds have the lowest expected growth rate and are best suited for your tax deferred accounts since these accounts have the highest future tax liability.

				Non retirement account	Bill 401k	Bill Profit share	Bill TSP	Jane IRA	Jan Roth
Bill 401k				414,852	1,336,632	528,892	245,121	177,157	33,088
Existing				414,853	1,336,631	528,892	245,121	177,157	33,088
Vgd=Vanguard	Target	Target	Over/(under) target						
US Stock	33%	\$ 909,634	\$ (0)						
Vgd Total Stk Mkt					589,442				
Vgd Inst' Index (ABC Profit share)						130,447			
Vgd Growth				20,520					
Vgd Small Growth				5,888					
US stocks				163,337					
US Value	9%	\$ 239,377	\$ (0)						
Vgd Value Factor				85,554					19,853
Black Rock Fundamental					100,085				
Ishare 2000				4,216					
Vgd Value index				29,670					
International	23%	\$ 622,381	\$ (0)						
Vgd Total Int'l Stk Mkt					602,267				
iShare Core MSCI				14,439					
Vgd Dev Mkts				1,416					
Vgd Emerg Mkts				4,259					
International Value	5%	\$ 143,626	\$ (0)						
DFA Int'l Small Value (DISVX)					44,837				
Avantis Int'l Small Cap Value (AVDV)				85,554					13,235
Bond	30%	\$ 820,723	\$ 0						
Vgd Total Bond Mkt						398,445		177,157	
G Fund							245,121		
Total	100%	\$ 2,735,742							
			Unallocated	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ 0