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The Great American Rip-off

The financial industry loves to talk about long-term investing, but what is long-term? Well, according to the IRS, long-term is 12 months and 1 day. Anything less than that is considered short-term from a tax perspective and taxed at your ordinary income tax rate.

Think about when the calendar turns a new year. The investment community parades out all their strategists, analysts and economists with their predictions for the upcoming year. Which stocks, growth or value, which sectors, technology or healthcare, are going to outperform over the next 12 months? Where will the markets end the year, and what about interest rates? Rarely have I seen in my 38 years of experience predictions for the next five years, or decade, as to what they think will happen. Why is that? Maybe it's because, if you actually follow their predictions, you would realize just how wrong they are. LCM Capital Management likes to call them "annual guesses." The word "guesses" sounds unprofessional, but the reality is, that is what they are. Do yourself a favor and stop paying attention to them. They are no better at it than you or I.

The reason the financial industry does not believe in actual long-term investing is, in our opinion, two-fold. First, it tends not to generate enough fees. When money is in motion, it generates fees and fees are good for business but not always good for the investor or client, especially long-term. Second, the resulting long-term performance is awful. The reason our industry talks the long-term investing game, but does not walk the walk, is because, according to the most recent S&P Dow Jones Indices SPIVA report, which is an annual performance report on all mutual funds, only 7% of all large-cap funds outperformed the S&P 500 over the 20-year period ending 2025. [1] Not exactly something to be bragging about.

Gene Hochachka, from Frontier Financial, published a report abstracting data from Morningstar looking at active mutual funds' turnover. Turnover is the percentage of a mutual fund's holdings traded annually. He looked at the data from 1991-2020, i.e., long-term. The average annual turnover for US Large Cap funds was 73%. To put this in perspective, 100% turnover means the portfolio is traded (turned over) completely in one year. So, 73% is approximately three quarters of the portfolio turned over every year. So why would they do this? You would think it is to improve performance. The manager is selling bad stocks and buying what they consider to be good stocks or selling ones that have gone up and buying the ones that have gone down. Yet Mr. Hochachka found that, "*any other relationships between turnover and returns are similarly not borne out consistently across the various categories over time. Over this* [30-year] *period, high turnover does not hurt fund performance. Nor, however, does it enhance performance*."[2] So why do it? To quote Rod Tidwell from Jerry McGuire, "show me the money" because it is all about the money, i.e. the fees. Our industry thrives on them and needs them to support their private jets and yachts.

Someone once said, the only way to make a lot of money on Wall Street is to start a mutual fund. Ever look at the Forbes 500 list of the wealthiest people in the world – you might be surprised to see how many hedge fund managers, money managers, private equity, private credit and venture capitalists are on the list. Why are their clients not on the list?

According to the 2025 SPIVA performance report, or should we say underperformance report, showing how active mutual fund managers did versus their stated benchmark, it's an obvious answer. Like the Forbes 500 list, the facts might surprise you. According to the SPIVA report, only 21% of all active large-cap U.S. equity managers outperformed the S&P 500 in 2025. We should point out that is actually less than the previous year which was 35% and the year before that was 40%, so the "stock pickers" i.e. "active" managers are actually getting worse.

Let us share just one example of the problem these active fund managers had last year (2025). The S&P 500 closed out the month of February at 5954. April 7th, it closed at 5062. That's approximately a 15% drop in a little over a month. Clearly fund managers were selling as were "people.". I intentionally used the word "people" since investors they are not.   Fast forward two days (long-term, right?) April 9th and the S&P 500 had its single biggest day since 2008 jumping over 9.50%, in a single day!

The problem with trying to time the market, which is what active managers attempt to do, is sure they may have gotten lucky and sold but now they have to get lucky again and know when to buy. One thing is for certain, most managers that were out of the market (and don't forget so were their clients) probably missed this move on April 9th. And there was no reason to from our perspective. I say this with much certainty because according to an article on cnbc.com written by John Melloy and Hakyung Kim, *Trump's pause declaration went out at 1:18 p.m. ET when the Dow was about 350 points higher for the day. Seconds later, the 30-stock index surged more than 2,000 points*. Read that again, *seconds later* the market moved over 5%. So how many of these managers were lucky enough to get back in? My partner and I always say the problem with facts is they are stubborn and they don't lie. Well, here are the facts according the 2025 SPIVA report. 2025 was the worst year for large-cap active performance since 2021. Our guess is this was due to the tariff tantrum and the "experts" guessing on who will win and who will lose. Sadly, as the numbers often show, the losers are the investors.

So, if trading within your mutual fund does not help performance, what does? Stock picking, market timing, risk adjusted returns?

You probably have heard the term "a stock pickers market" in your investing career or if you are just starting, you will at some point. It is especially true in volatile markets like we had over the last few years. But if the latest SPIVA report does not lay to rest that these managers are not very good stock pickers, then maybe they are better at monitoring risk. According to the report, on a risk-adjusted basis, less than 3% of all large-cap funds outperformed the S&P 500 over the 20-year period ending 2025 - so much for that sales point. Active underperformance is not a coincidence according to the report and underperformance rates typically rise as time horizons lengthen, a.k.a. long-term investing.

This dismal fund performance does not even take into account all fees and costs. Yes, while the performance figures from the report are adjusted to include fees, they do not reflect the mutual fund loads, if any, or the fees you are paying your advisor or broker? What about the impact of the taxes you paid if your mutual funds are not held in an IRA type of account? If you add these fee components into the equation, LCM Capital Management would ask, now what's the underperformance of the active mutual funds against their benchmark, 99%? We can't say for sure, but in our opinion, clearly the odds are stacked against you.

So why is this the case? Academics have known for decades that active stock pickers underperform but that will not fill up the yacht or private jet's fuel tank. The reality is there are many reasons, which have been discussed within our industry for years, some of which are; too much trading (see portfolio turnover above), trying to time the market moves (market timing is impossible to do consistently over time), and the all-in mutual fund fees and related costs are too high. Jack Bogle, the deceased founder of Vanguard, once said, "Before costs, beating the market is a zero-sum game. After costs, it is a loser's game. Fund performance comes and goes. Costs go on forever."[3]

So what are investors to do? After reading this - LCM Capital Management thinks it is simple, do not ever buy an active mutual fund again, reduce your fees, do not try and trade (time) the market, and control your taxes. So how does one invest like this? That is simple too, call LCM Capital Management at 312-705-3013 or email us (lcm@lcmcapital.com) to set up a free portfolio review and analysis. Hopefully this article explains why in over 26 years of our firm's existence, we never have bought for our clients an equity or bond mutual fund.

We consider mutual funds to be the Great American Rip-off.

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[1] Ganti, Anu, Di Gioia, Davide, Didio, Nick and Flaherty, Liam; "SPIVA U.S. Scorecard Yea-End 2025;" S&P Dow Jones Indices; March 3, 2026
[2] Hochachka, Gene; *US Mutual Fund Turnover and Returns, 1991-2020;* Frontier Financial Inc.; Dec. 10, 2021
[3] Bogle, John C., *46 Best John C. Bogle Quotes*; Gracious Quotes; Jan. 23, 2021.