

# Information Regarding the Impact of Fees on Performance in Investment Proposals

**This information is designed to help you understand the investment proposal, report, or analysis you received from your LPL financial professional. Please see the information provided to you in the handout *Important Information about Investment Proposal Tools* to understand what an investment proposal tool is and what its results mean for you.**

## **What does it mean that an investment proposal shows projections “gross of fees”?**

As discussed in more detail in *Important Information about Investment Proposal Tools*, fees and expenses reduce your investment returns. The effect of fees on your long-term investment returns are compounding, meaning higher fees will cause you to earn relatively less on your investment, and that impact will grow over time.

If an investment proposal tool report is “gross of fees” that means it includes **none** of the fees and expenses that you will pay and that will reduce the performance of your actual account. These fees and expenses include advisory fees, manager fees and/or transaction charges, taxes, and other miscellaneous fees. **Because of the compounding effect of fees on investment returns, gross of fee results significantly overstate the potential results of an investment strategy.**

For example, if an investor invests \$100,000 in an account that earns 5% each year for 20 years with no investment costs, the investment would be worth \$265,000. If the investor made the same investment with a 2.0% fee each year, the investment would be worth \$180,000, meaning fees would reduce the value of the account by about \$85,000 over those 20 years.

## **What does it mean that an investment proposal shows projections “net of fees” but does not use the highest fee I might pay?**

If your financial professional uses a proposal tool that shows projections net of fees (meaning fees were deducted from the performance of the account) but the proposal doesn’t deduct the highest fee you may pay for an account, that means fees and expenses will reduce projected investment returns more significantly than is reflected in the proposal. If the fee you are shown in the net projected returns of an investment proposal tool are not the highest fee you might pay for investment advice, your returns will be lower and you will pay more in fees.

For example, if an investor makes the same investment described above with a fee of 1.5% instead of 2.0%, the investment would be worth \$199,000, or \$66,000 less than the gross performance, over 20 years. This means that a 1.5% fee would impact the value of your account by about \$21,000 less than a 2.0% fee.

## **How should I use gross of fee projections or net of fee projections that do not use the highest fee I may pay?**

You should use gross of fee presentations for illustrative purposes only, recognizing that those presentations **overstate the potential results** of an investment strategy. You should carefully review any investment proposals that are presented to you gross of fees or net of a lower fee than the fee you might pay, and discuss with your LPL financial professional what fees you will pay for an account and how investment results after the fee you will pay compare to projected results in a proposal tool.

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