# Warning: Advising clients to buy mutual funds is a bad idea

**By Don Wilkinson, CEO**
**DFW & Associates**

Mutual funds received a little bump in 2009. Unfortunately, there aren't going to be many years like last year.

Fund investors earned returns in the range of 20 percent to 70 percent on equity and high-yield bond funds, and most didn't have to pay capital gains taxes, either. This is because funds had such big losses on the 2008 books -- gains were offset in 2009. Thus, they were able to avoid making distributions.

The millions spent on funds' marketing hype and the 2009 ROI improvement window were enough to drive millions of Americans like lemmings to the sea to continue shoveling their dollars into the fund companies' coffers.

For most mutual fund investors, the high fees, add on capital gains taxes, and blatant lack of transparency by the fund companies seem to be virtually ignored. Conversely, most investors don't even realize there are other wealth building strategies out there that are superior to mutual funds.

If you are advising your clients to buy mutual funds today, you are disregarding the tax issue at your and your clients' peril. Those losses mentioned in the third paragraph have been eliminated for the most part. By all expectations, taxes will increase in 2011.

In essence, if you are also advising your clients to hold their mutual funds for the long haul -- 10 or 20 years -- then they will pay a price down the line.

As you know, because of the way mutual funds are bought and sold, it is all too possible to lose money on your client's investment and also have them paying significant capital gains taxes. During this last year, mutual fund investors had it better. Yet, low returns and capital gains taxes -- the double whammy -- have been happening every year since 2000, and if the predictions are correct, the excess taxes will continue to punch holes in your clients' portfolios in the future.