Index Funds

Money

What an index fund does, and why cost matters so much.

A fund that holds all the constituents of an index in proportion, aiming to match its return rather than exceed it. Because it requires no research, its running costs are very low.

TYPICAL INDEX	TYPICAL ACTIVE	OVER 30 YRS
0.05–0.25%	**0.75–1.5%**	**large gap**

- An index fund charging 0.1% keeps 0.1% a year.
- An active fund charging 1% keeps ten times as much.
- Over 30 years, that difference compounds substantially.
- Most active funds underperform their index after fees.
- Accumulation units reinvest income; income units pay it out.
- Tracking error measures how closely it follows the index.

LOOK FOR IT

1% a year over 30 years can consume roughly a quarter of the final value.

General education, not financial advice. Fees are the one variable you control with certainty.