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You Won the Battle on Investment Fees. You’re Losing the War Against Taxes.

New research shows that federal taxes eat up more than a third of investors’ wealth over time

By Jason Zweig

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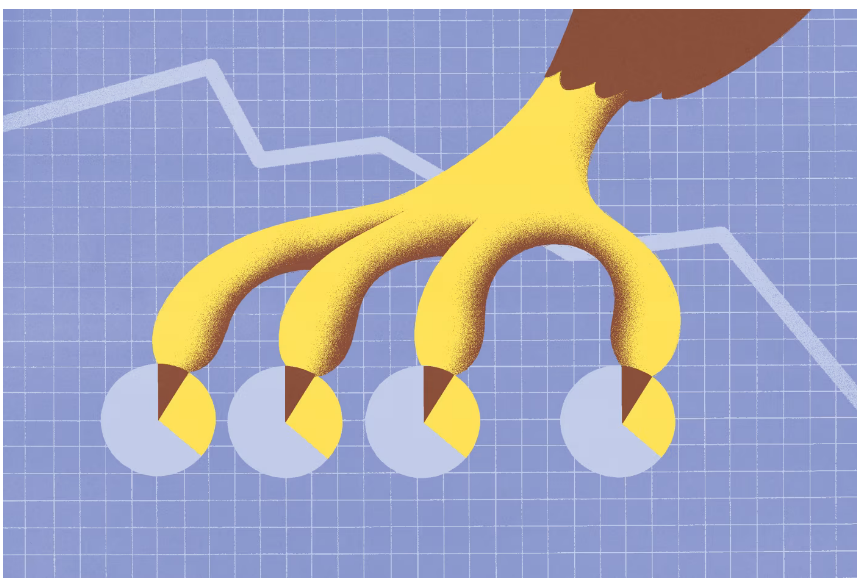

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Investing can cost almost nothing nowadays—until Uncle Sam comes calling.

In an index fund, you can own the entire stock market for no more than 0.03% annually, or $3 on a $10,000 investment—a figure so low it would have sounded absurd as recently as 20 years ago. At the same time, taxes could be eating up at least a third of the wealth your investments generate.

When people consider any investment, they tend to look first at performance, then (maybe) at fees and last (if at all) at taxes. That makes no sense.

With fund fees approaching zero, taxes matter more than anything else. Your biggest unfinished task is to figure out how to get Uncle Sam's mitts off your money.

Consider these numbers: Between 1926 and the end of 2025, the total U.S. stock market returned an annualized average of almost 10.5%. After tax, however, that return drops to 7%.

Since the 1980s, federal tax rates have fallen. But taxes still hacked away between 1.6 and 1.8 percentage points of the market's roughly 10% annual performance—more than one-sixth of the total return! For most investors, no other cost comes close.

These figures come from new research by Andrew Ang, formerly a managing director at BlackRock. He assumed you bought and held a total stock-market index fund for 30-year periods starting in 1926 and paid federal taxes at the rates that applied in each of those years.

Ang's results are driven mainly by taxes on dividends and on periodic