

No-Load Mutual funds

Do no-load funds really save you money? Let's take a brief look at the costs associated with investing in mutual funds to see whether no-load funds can really save you money.

First, what is a load? A load is a commission. Some of the load gets paid to the sales person, and some is retained by the company to help pay for marketing and other distribution-related expenses.

The fund company has to pay distribution-related expenses whether or not it charges a load. Distribution-related expenses are those involved with making the fund available to investors. Who really pays those expenses? The investor, of course. But, if there is no up-front sales load, how does the company get the money?

One option is to charge a back-end load (or redemption fee). While Class A shares charge a front-end sales load, Class B shares charge a redemption fee. If you sell your shares within a specific time-frame (say, within three years or so), you will be charged a fee for doing so. In addition, Class B shares may have an annual 12b-1 fee, which pays for distribution expenses every year. Some Class B shares can be converted to Class A shares after a period of time (to take advantage of lower management and other internal fees).

Class C shares do not charge front-end fees, but may have redemption fees. They get the money to pay distribution expenses by charging relatively high 12b-1 fees. Are 12b-1 fees bad? That depends on how high they are. A 12b-1 fee of .15% may be OK, while one that is 1% or more is not so great (remember, it will be deducted year after year).

All funds charge fees. They are necessary for the fund to operate, but the amount charged can vary significantly. No-load funds often (but not always) have a higher fee structure than comparable load funds. After all, they have to pay their administrative and management expenses somehow. You experience the higher expenses as a decrease in net asset value (NAV).

One additional point to remember, Class A shares may offer a discount if you invest specified dollar amounts (known as breakpoints). This discount, coupled with possibly lower internal fund expenses, may result in you getting a higher investment return.

So, are no-load funds better? True, they may not actually charge a front-end sales fee, but they may charge a redemption fee and/or an ongoing 12b-1 fee. They may also have higher expenses than load funds.

What should you do? If you need an advisor to help you make investment decisions, you will either pay a load or a separate investment advice fee. Either way, it can be money well-spent to get good advice. However, if you do not require that advice, do some investigation. Add any distribution-related charges to internal fees (be sure to forecast the impact of ongoing fees). Then, check to see whether any breakpoints might be available. Add up the numbers and make your choice (based, of course, on how well

the fund fits into your overall investment plan). FINRA has developed a tool to help investors analyze mutual fund expenses, which you can access at:
<http://apps.finra.org/fundalyzer/1/fa.aspx>.

For Further Reading:

<http://www.stocks-investing.com/mutual-funds-share-classes.html>

<http://www.ici.org/quiz/index.html>

http://en.wikipedia.org/wiki/Mutual_fund

<http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/MutualFunds/P006022>

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