401(k) maneuver™

A MOVEMENT REQUIRING SKILL AND CARE

THE DIFFERENT TYPES OF MUTUAL FUNDS AVAILABLE.. AND WHAT THEY COULD COST YOU

Many investors today turn to mutual funds in order to save for retirement, as well as for other financial goals. Basically, mutual funds are a type of investment that "pools" money from many investors - in some cases, thousands of investors. These investors purchase shares in the mutual fund.

Depending on the goals and objectives of a mutual fund, the underlying investments may include stocks, bonds or other securities in any combination. Each share in a mutual fund represents an investor's partial ownership in the fund.

Similar to other investments, mutual funds will typically charge sales commissions and/or fees to investors. The commissions and fees will vary based on the type - or the class - of the mutual fund shares.

Class A Shares

With Class A shares, investors are charged a front-end commission, or sales charge. This is referred to as a front-end load. This means that a commission is paid when shares are purchased.

Commissions usually range between 3% and 5% (although they could be higher or lower) and are deducted from the amount invested. So, for instance, if XYZ Mutual Fund charges a 5% up-front commission and you invest $10,000, then $500 would go towards the commission, and the other $9,500 would go into the fund as your investment.

In many cases, mutual funds with Class A commission structures will offer a type of "quantity discount”. So, if you are making a large purchase, you could reduce the amount of up-front commission that you pay. These "breakpoints" must be disclosed in the mutual fund's prospectus.

In addition, Class A shares may have lower overall operating costs, versus Class B or Class C shares. Because of this, you may pay less in ongoing operating expenses with Class A shares. Therefore, if you are planning to keep your investment for the long haul, Class A shares could be a viable option for you.

Class B Shares

If you purchase Class B shares, you may pay a back-end sales charge. This is often referred to as a CDSC, or contingent deferred sales charge. In this case, while you would not pay an up-front commission, you would instead pay a fee at the time you sell your shares.

However, if you hold on to your shares for a certain period of time, you may not be required to pay a back-end sales charge. Over time, the contingent deferred sales charge percentage gradually declines, until it eventually goes to 0%.

However, this does not mean that you won't pay any fees. In most cases, mutual funds will also have an internal expense, which goes towards the fund's operating cost as well as marketing and distribution. These fees will typically range from 0.50% and 1.5% of your account value, but could be much higher.

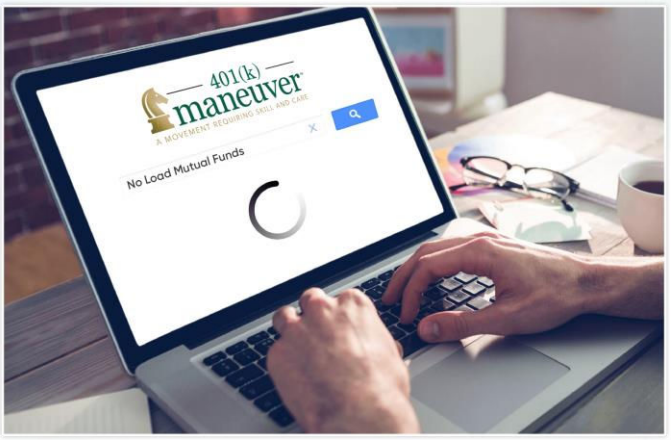
Class C Shares

Class C shares are no different than Class B shares, other than the length of the deferred sales charge and the internal expenses may be much higher.

Generally, because Class C shares will have a higher amount of ongoing fees, versus Class A and Class B shares, they may end up costing you more over a longer period of time.

However, if you are making a short-term investment (such as one to three years) Class C shares could fare better, because you won't be required to pay a high up-front sales charge (like in Class A shares). Therefore, the higher annual expenses of the Class C shares may have less impact on your overall returns when shares are sold.

No Load Mutual Funds



Although the term no load mutual fund may lead you to believe that there are no fees at all, this is not the case. Although you won't be charged a commission when you buy or sell these shares, no load mutual funds will usually charge annual expenses. These are often lower than Class B or Class C shares expenses.

One caveat about no load mutual funds is that they may not be offered depending how an adviser is licensed.

Which Type of Mutual Fund is Best For You?

If you are considering adding mutual funds to your portfolio, or if these types of investments are being offered in your workplace retirement plan, it may make sense to pay close attention to how and when you will be charged a commission and/or fee. Mutual fund sales charges can make a big difference on your overall short and long-term returns.

So, given all of the various mutual fund commission structures, which type of fund will be the best one for you?

It depends.

There are thousands of mutual funds available today, so choosing the right one can be somewhat difficult. You can narrow down your options based on your long and short term financial goals, investment time horizon, and overall financial objectives.

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