



# ECM's Financial *Focus*<sup>TM</sup>

## Insight Into The World Of Investing

### Mutual Funds – The Real Truth About Costs

*By ECM's Private Client Group*

There are many factors that contribute to the total return of an investment. One of the most commonly overlooked factors is the true cost of owning a mutual fund. There are many costs that investors, we believe, don't have a clear understanding of. Funds typically pay their operating expenses out of fund assets — which means that investors indirectly pay these costs. These include: shareholder transaction costs, investment advisory fees, sales charges, and marketing and distribution expenses. Funds pass along these costs to investors as “fees and expenses”. It is important that you understand these charges because they lower your returns. Among one of the largest costs is a sales charge or “load”, which can be as high as 8.5% - commonly paid as a commission to the broker that sold the fund. This may be charged when you purchase the fund, or charged when you sell it. Many brokers tell investors something along the lines of “there is no up-front commission charged to you”; which of course means there is likely a commission paid from your proceeds when you sell the fund.

There are several “Classes” of funds. Many mutual funds offer more than one class of shares. For example, you may have seen a fund that offers "Class A", "Class B", and “Class C” shares. Class A shares typically impose a front-end sales load. Class B shares typically do not have a front-end sales load. Instead, they may impose a contingent deferred sales load and a “Distribution Fee” (also called a 12b-1 fee) along with other annual expenses. Class C shares might have a 12b-1 fee, other annual expenses, and either a front- or back-end sales load. But the front- or back-end load for Class C shares tends to be lower than for Class A or Class B shares, respectively. The primary effect of a load charge is to reduce the overall return.

Funds also charge "Distribution Fees" (12b-1 fee), which includes fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. Yes, you pay for their marketing. Another fee charged are "Shareholder Service Fees", which are fees paid to persons to respond to investor inquiries and provide investors with information about their investments. Some funds call themselves "no-load." As the name implies, this means that the fund does not charge any type of sales load. But, as discussed above, not every type of shareholder fee is a "sales load." A no-load fund may charge fees that are not sales loads, such as purchase fees, redemption fees, exchange fees, and account fees. No-load funds will also have operating expenses. We've found many no-load funds have total fees in the 2.5-3.5% range. As low as that may be in comparison to load funds, *this is still about 2-3 times ECM's fee.*

The main thing is if you're considering a Mutual Fund, be sure to review carefully the fees, including no-load funds. Even small differences in fees can translate into large differences in returns over time.

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