## Facts for Advisors

Returns Barely Affect Share Class Choice

## Neither Bull Nor Bear

Issue: You cannot easily quantify how returns affect share class choice.
Background: For any trade, as returns change, the best share almost never changes. The best one is a function mainly of time horizon, pricing, and trade size, not return. A-share investors may believe otherwise. Bull markets can offset the negative effect of a sales load, so they think. Their share class choice may be right, but for the wrong reason.
It's important to evaluate the differential in return, not the absolute level. Consider A- and B-shares. If annual returns are $5 \%, 15 \%$, or $25 \%$, the best class stays the same. If A's are best at $5 \%$, they're best at $25 \%$. Until B's flip, A's may have a $0.75 \% /$ yr edge in all markets. That's the difference in $12 \mathrm{~b}-1$ fees, which often are $0.25 \%$ for A's and $1 \%$ for B's. If A's earn $8 \%$, B's earn $7.25 \%$. It takes time, not returns, for A's to catch up. For example, if an A-share load is $5.25 \%$, it takes about seven years for account values to equalize, regardless of return ( $5.25 \% / 0.75 \%=7$ ).

Result: Investors reap higher returns without more risk. The odds improve that they select the right share class.

Example. Joe will invest one-time in the XYZ fund and hold it for ten years. He owns no other XYZ funds. He does trade analyses at $\$ 20,000$ and $\$ 120,000$.
A-, B-, and C-share expense are $1.25 \%, 2 \%$, and $2 \%$. Ashare loads are $5.75 \%$ to $\$ 49,999,4.75 \%$ to $\$ 99,999$, \& $3.75 \%$ to $\$ 249,999$. B- and C-shares CDSCs don't apply per the long time horizon. After six years B's flip to A's. Annual pre-expense returns are $20 \%$ and $-20 \%$.


Results. The best share class (A or B) does not change as returns change. This holds for all horizons of seven or more years. Results below are through year ten.
At $\$ 20,000$, $B$-shares are best in continuous bull or bear markets of $20 \%$ or $-20 \%$, and all markets between. They edge A’s $\$ 104,631$ to $\$ 103,080$ and $\$ 1,814$ to $\$ 1,788$.

At $\$ 120,000$, A's are best, regardless of return. They win $\$ 631,603$ to $\$ 627,787$ and $\$ 10,953$ to $\$ 10,887$.


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