

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 12b-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%. A-share 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.

