

Not a Big Issue

Goal: Recommending the right mutual fund share class to each client.

Problem: You cannot easily quantify how fund expense ratios affect share class choice. If you could, clients would view your recommendations as being more objective and compelling. It would enhance your value in their eyes.

Suggestion: Select three funds with A-, B-, and C-shares. Evaluate a large trade and a small one. Except for expense ratios, keep all else equal. For a given trade, as expenses change, account values change a lot, but the top performing class may not. This suggests that expenses barely affect the relative merits of a class. The “best” class is a function mainly of time horizon, pricing profile (e.g., loads), and trade size. These factors matter more than fund expenses.

Result: Clients fare better and your business grows, with help from Broker Village.

Example. A client is considering funds (X, Y, & Z) with different expense ratios. They’ll buy the share class of a fund that has the highest account value after 10 years. They ask for \$20,000 and \$120,000 trade analyses.

The A-, B-, and C-share expense ratios for the three funds are: (X) 0.5%, 1.25%, 1.25%; (Y) 1.25%, 2%, 2%; (Z) 2%, 2.75%, 2.75%. A-share loads are 5.75% for all funds. CDSCs are ignored given the long horizon. B-shares convert to A’s after six years. Annual pre-expense returns of 8% and -8% are tested.

Results. Trade amounts determine the best class, not expenses and return. Results to year ten, below, reflect 8% returns for the fund with the lowest (X, 0.5%) and highest (Z, 2%) A-share ratio.

Past year 5, at \$20,000, B-shares always are best, totaling \$39,286, \$36,483, and \$33,898 for Funds X, Y, & Z. (1st image.) At \$120,000, A’s always are best: \$237,224, \$220,226, & \$204,559. (2nd one.) The best class doesn’t change even at a -8%/yr return. To year 5, C’s always are best, regardless of trade size or return.

The client is impressed with the rep. Confidently, they invest \$120,000, not \$20,000, in Fund X’s A-share.

Select Custom Fund

Do not check Apply Returns

Change amount invested from \$20,000 to \$120,000

Change return from 8% to -8%. Ignore other boxes.

Click Custom 1 to change expense ratio. Save before changing amount invested. Fund X shown.

X (.5%) & Z (2%), \$20,000

Class	Value
Best: B-Shares	\$39,286
2nd Best: A-Shares	\$38,716
3rd Best: C-Shares	\$38,134

X (.5%) & Z (2%), \$120,000

Class	Value
Best: A-Shares	\$237,224
2nd Best: B-Shares	\$235,713
3rd Best: C-Shares	\$228,807