Mutual Fund A, B, C's

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At the Rauchegger house, we just received progress reports from school. Cassie came home with her usual stockpile of A's from third grade and Vaughn happily brought home all Satisfactory from first grade. We always tell our kids that A's are the best, right? What if I told you that when it comes to mutual funds you want to get C's and not A's and B's?

A mutual fund is a professionally managed investment fund that pools money from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets. Mutual funds are operated by professional money managers, who allocate the fund's investments and attempt to produce capital gains and/or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the mutual fund investment objectives outlined in the prospectus. If you are invested in the stock market and/or participate in a company-sponsored 401(k) qualified plan you are likely the owner of various types of mutual funds.

In mutual funds, fees are classified into two categories: annual operating fees (known as the expense ratio) and shareholder fees. The annual fund operating fees are charged as an annual percentage of funds under management, usually ranging from one to three percent. The shareholder fees, which come in the form of commissions and redemption fees, are paid directly by shareholders when purchasing or selling mutual funds. There are three main mutual fund share classifications known as A shares, B shares and C shares.

Class-A shares charge a front-end load that is taken off your initial investment. For example, if you invest $100k then only $95k may be invested and your advisor will receive the $5k in the form of a front-loaded sales charge. That means you need to make a 6.0% return just to get back your initial investment amount.

Class-B shares are classified by their back-end or contingent deferred sales charge. These shares are typically good for investors with little investment cash and a long investment horizon. If you withdraw funds within a certain period (typically five to eight years) you are charged a back-end or deferred sales charge which goes to the financial advisor. Twenty years ago, the average holding period for a fund was approximately eight years, but today the average holding time for a mutual fund is less than two and a half years.

Class-C shares are a type of no-load fund. This share class works well for individuals who want short-term flexibility. In this way, you avoid both front- and back-end loads. Although your fund expense ratio will normally be slightly higher than Class A shares, your full investment will gain interest while it is invested. With C shares one may argue that the financial advisor's interests are more aligned with the individual investors' interest.

When deciding which class of mutual fund shares to choose, remember your "A, B, C's." Read the prospectus, consider your investment horizon, the initial amount you have to invest, the frequency of your investments and the probability you will need to withdraw funds before you initially intend to do so. For more information on the A, B, C's of mutual funds or if you would like to attend one of our future educational dinner events, please feel free to contact us at Cramer & Rauchegger, Inc. Phone: **407-645-4433**; E-mail: **info@cramerandrauchegger.com** or our website: **www.cramerandrauchegger.com.**

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