

The broker or dealer handling mutual funds takes no underwriting risk. The shares are "created" after the sale.

The fact that the prospectus is explicit on the sales charge is not relevant. Most mutual fund buyers are inexperienced—and not comparison shoppers. They rarely read prospectuses. They rely on the oral statements of salesmen, which are not cleared by the SEC.

ABSOLUTELY INCORRECT

Q. Is it correct that the management fees of no-load funds are invariably higher than those of the load funds and that is how the no-load funds make up for the absence of a sales commission?

A. Absolutely incorrect! The management fees and sales charges are distinct from one another. The sales commission goes to the salesman and the organization he represents. The usual charge is about \$85 per \$1,000. After the commission is taken out, the management fee, or percentage, is levied on the \$915 that the managers of the fund handle. On the purchase of the same amount of no-load shares, the management percentage applies to the full \$1,000.

Some very large load funds have extremely low costs. Among these are Massachusetts Investors Trust and National Investors with expense ratios of 0.19%. This includes all costs of operating the fund, as well as the fee for management.

RELIABLE ASSURANCE?

The expense ratios of the larger funds—load and no-load—range from about 0.4% to 0.6%. The average expense ratio for all no-load funds with assets of one million dollars or more amounted to 0.82% last year; of all load funds 0.76%. Clearly then, expenses of load funds are not decisively lower per dollar at work than those of no-load funds.

Q. I have been assured that if I put my savings in a mutual fund my money will grow faster than if I kept it in a bank or in savings bonds. Can I rely on this?

A. Get whoever said that to put it in writing! Rarely does the income from a mutual fund's investments exceed 3%. This is less than the interest on savings deposits or on savings bonds.

Moreover, mutual fund shares represent risk investment—mostly common stocks. These sometimes decline in price. Money is safer and income surer in the bank or in savings bonds. Only during periods of long prosperity can an investment in a mutual fund be counted on to outearn compound interest. The slow, steady tortoise sometimes beats the hare.

(This is the second of three Q. and A. columns on mutual funds. The third will appear tomorrow.)

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THE BUSINESS OUTLOOK—NO-LOAD MUTUAL FUNDS: BROKERS SKIRT QUESTION

(By J. A. Livingston)

This is the third and last column on questions frequently asked about mutual funds.

Q. Is it true that if I buy a mutual fund which doesn't charge a sales commission, I'd have to pay a getting-out charge?

A. A few no-load mutual funds—less than one out of four—may charge redemption fees. Rarely do these amount to more than 1%. This is small compared to the usual 9.3% getting-in fee on a load fund.

The redemption charge is designed not to make money but to deter in-and-out trading. The prospectus or sales literature will indicate if there is a redemption charge.

Q. I told a mutual fund salesman recently that I was interested in a no-load fund. He applauded, saying I was wise to buy a mutual fund for long-term investment. Then he instilled doubt. He asked: Have you considered the greater investment flexibility of load funds over no-load funds—especially in a weak stock market?

Because salesmen are actively selling, he said, a load fund has a steady inflow of new money. This means it can reduce its proportionate holdings of common stocks merely by holding on to incoming cash. He said, however, that a no-load