

Question: In last weeks column you talked about “B” share mutual funds and their high expenses. Can you talk a little about “A” share and “C” share funds?

Answer: Sure.

As I stated last week, mutual funds have developed various share classes (A, B, C) which allows an investor a choice as to how they will pay any sales charges or fees associated with the fund being bought or sold. Class “B” shares typically have the highest operating expense ratio, much more usually than class A and class C shares. This means if you invest in a “B” share fund, it will generally cost you more money which can really be a drag on your returns and portfolio growth. “B” shares also assess what’s called a back-end sales charge, also known as a contingent deferred sales charge (CDSC). This is a sales charge you have to pay when you sell or redeem shares.

Class “C” shares are similar to class “B” shares in that they have higher operating expenses and a CDSC. The CDSC for “C” share funds is usually lower than a “B” share fund and it usually disappears in a shorter period of time, generally 2 years or less.

Class “A” shares impose a “front-end” sales charge or commission. That means every time you invest money, a sales charge is deducted from your investment. For example, you invest \$1,000 into XYZ Mutual Fund with a 5% sales charge. \$50 is the sales charge and \$950 of your money goes to work in the investment. Despite the upfront cost, “A” shares typically have lower annual operating costs than a “B” or “C” share fund.

Bill’s Bottom-line: The Mutual Fund Expense Analyzer allows you to compare the costs of different mutual funds/share classes and the impact the various fees and expenses can have over time. Learn more at: http://apps.finra.org/investor_Information/ea/1/mfetf.aspx.



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