

Mutual Fund Costs Decline Between 1998 and 2001, October 2002

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Washington, DC, October 8, 2002 - The shareholder cost of investing in each major type of mutual fund continued to decline between 1998 and 2001, according to updated research published by the Investment Company Institute, the national association of the American investment company industry.

The total cost of investing in equity mutual funds decreased about 5 percent between 1998 and 2001, bringing the cumulative decrease since 1980 to 43 percent. The cost of investing in bond and money market funds also continued to fall—by 17 percent and 14 percent, respectively between 1998 and 2001, and by 41 percent and 35 percent, respectively since 1980, an Institute study found.

The study, [Total Shareholder Cost of Mutual Funds: An Update](#), found that the decline in total shareholder cost in equity funds largely reflected a continuation of the downward trend in distribution cost, which is the component of total cost that primarily represents compensation to sales professionals for advice and service.

Distribution cost for investors in equity funds fell 23 percent between 1998 and 2001 and overall is down 73 percent since 1980. The recent decline as well as the cumulative decline resulted from an increase in sales of no-load funds, which have minimal distribution costs; and an increased proportion of load fund sales through 401(k) plans, wrap accounts, and IRA rollovers of 401(k) balances in which loads are reduced or waived.

The decline in total shareholder cost between 1998 and 2001 associated with the decrease in distribution cost would have been even larger but for a shift in investors' preferences toward aggressive growth and international/global funds over the three-year period. These funds have higher operating expense ratios than other types of equity funds.

Based on a \$10,000 account, the study estimated that the total shareholder cost for all equity funds declined from \$135 in 1998 to \$128 in 2001, a decrease of 5 percent. Since 1980, the cost to shareholders of investing in equity funds has declined 43 percent.

The study also estimated that the total cost to shareholders of bond funds declined 17 percent between 1998 and 2001 to \$90 from \$108, based on a \$10,000 account. Since 1980, the total cost to shareholders of investing in bond funds has declined 41 percent. Money market fund costs dropped 14 percent last year to \$36 per \$10,000 invested from \$42 in 1998. Since 1980, the cost to shareholders of investing in money market funds has declined 35 percent.

The study evaluated fee trends using a comprehensive measure called total shareholder cost. This measure represents the cost that an investor would expect to incur in purchasing and holding mutual fund shares. It accounts for all major fees, expenses, and sales charges relevant to decisionmaking, and is based upon the same considerations underlying the fee information required by the U.S. Securities and Exchange Commission in every mutual fund prospectus.

The fees and expenses included in total shareholder cost consist of fund operating expenses, 12b-1 fees, and sales loads. In contrast, most other measures used to analyze mutual fund ownership cost do not account for sales loads.

Total shareholder cost is a measure of the purchase price of a fund. A sales-weighted average is used to measure the total shareholder cost for a group of funds. This sales-weighted average of total shareholder cost is calculated by weighting the shareholder cost of each fund by the fund's portion of total new fund sales in any given year. As a result, the funds that are in greatest demand in a given year, and that therefore receive the largest proportion of new sales, are weighted more heavily than funds that garner a smaller share of new investor dollars.

The Investment Company Institute is the national association of the investment company industry. Its members include mutual funds, closed-end funds, exchange-traded funds, and unit investment trusts.

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