

Owning Mutual Funds: Things to Consider:

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The first mutual fund came to the market in 1928 through the investment firm MFS in Boston. The Investment Company Act of 1940 was enacted to place additional regulations on the mutual fund industry. Since then, the mutual fund industry has expanded to include millions of investors across the world, however, not much has changed for mutual funds since 1940. Many individual investors though are likely not aware of the different nuances of a mutual fund and their true costs. Below we outline some items that you should know if you own a mutual fund.

Mutual Fund Expense Ratio Costs: The internal expense ratio of a mutual fund is the main expense that regulations require mutual funds to disclose in their prospectus. They are internal costs, so you may not see the costs on your monthly statement since they are not easily transparent. The average expense ratio of a mutual fund according to a Forbes article dated September 24, 2016 is 1.19%. Expense ratios can range from .10% up to 1.50% for different mutual funds.

Trading Costs: In addition to the disclosed internal expenses, when a mutual fund is adjusting their portfolio, they incur trading costs. Mutual funds are not required to disclose these costs within the fund, which according to the Forbes article dated September 24, 2016, average mutual fund trading costs are 1.44%.

Negative tax impact-Mutual Fund Capital Gain Distributions: If you own mutual funds in a non-qualified account (non-IRA account), you likely have experienced or will experience a capital gain distribution. A capital gain distribution has a negative impact on your taxes. This capital gain distribution is not a share of the profit or returns of the fund, it is essentially the investor's portion of the proceeds from the fund transactions. Basically, you will owe taxes in a non-IRA account when a capital gain distribution occurs. Even though you may have no activity in which you sold shares of that fund, because you are a pooled shareholder, you may still receive a capital gain distribution (tax bill) if the fund itself made portfolio changes that involved gains.

Though mutual funds have been around for decades and have been a popular investment vehicle for many investors, industry advancements have created new investment options which may offer a less expense and more tax efficiency. Separately Managed Accounts (SMAs), in which a portfolio manager handles the investment portfolios individually, have now become an affordable option. Reserved for the ultra-wealthy in days past, due to their high investment minimums, many SMA investment programs have seen their minimums decrease so most investors can now have access to this more personalized investment solution. Baird research analysts' vet for the firm a list of some of the best money managers in the country, which our team in turn then evaluate and recommend to our clients, based on their personal needs and goals. We firmly believe that in many cases the SMAs offer an improved alternative to the traditional mutual fund platform.

The Boren Bernardin Schiff Group at Baird

812-428-5145
110 Main Street
Evansville, IN 47708
theborenbernardinschiffgroup@bairdwealth.com

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Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information about the fund can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained from your financial advisor or the fund website and should be read carefully before investing. Robert W. Baird & Co. Incorporated does not offer tax or legal advice. All investments carry a level of risk, including loss of principal.