

## THE ABCs OF THE B-SHARES BLUES

Got the B-shares blues? Not sure what a B share is? Don't know an A share from a C share? If you invest in mutual funds through a broker or other commissioned investment advisor, you'd better learn your ABCs.

A, B and C shares, referred to as share classes, are different ways to pay for the advice and assistance you receive when selecting and buying shares in a load mutual fund (most "no-load" funds don't have share classes). B shares in particular have come under fire lately for how they've been marketed. The Securities and Exchange Commission and the National Association of Securities Dealers have gone after several financial firms for pushing B shares when A or C shares were more appropriate. The NASD also issued an alert to consumers urging them to be cautious about buying Class-B mutual fund shares.

Here are the ABCs of these commission fees.

**Class A shares.** This is the upfront sales charge—or "load"—that brokered mutual funds traditionally have charged (up to 5.75 percent of invested principal). An A-share fund also will likely (but not always) charge a small annual 12b-1 fee, typically 0.25 percent. Some no-load funds also charge 12b-1 fees to cover sales and marketing costs.

**Class B shares.** Instead of an upfront charge, B-share charges are deferred, or "back-loaded." You pay the charge only if you sell your investment within a certain number of years—typically six. The early redemption fee normally declines each year until it reaches zero. A B-share fund also will charge an annual 12b-1 fee that's much higher than the 12b-1 for A shares—typically around one percent. If you hold on to the B shares long enough, say seven or eight years, most will convert to A shares with the lower 12b-1 fees. But not all do, so check the prospectus to see whether and when they convert.

**Class C shares.** Sometimes called a "level-load" share, these shares don't charge an upfront commission or a back-end redemption fee (unless you redeem shares within the first year). You annually pay a 12b-1 fee—usually one percent—for as long as you stay invested in the fund.

A- shares usually are the best choice when you plan to stay invested in a particular fund for several years or if you have a large amount—typically \$25,000 or more—to invest over the next year. That's because you receive a discount on

the sales charge. The more you invest, the higher the discount, though the “break points” vary from fund to fund.

Because of the redemption fee, B shares also should be used only by investors intending to stay in the fund for several years. But B shares have two major drawbacks, say critics. First is their higher annual 12b-1 fee compared with A shares. Second, unlike A shares, B-share funds offer no volume discount.

What about C shares? While they might appear the most tempting because you don’t pay any upfront or back-end commission, most experts say they work best for investors who don’t intend to stay in a fund more than three years. Investing should be for the long term, of course, though research shows that many investors buy and sell funds frequently.

For those investors, C shares would probably be the best choice. Another factor to keep in mind is to carefully compare operating expenses. The operating expenses of an A share fund at one mutual fund company might be higher than expenses at a comparable B-share fund at another company, thus erasing some of the advantage of the A shares.

April 2004— This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by local member Bill Rodau, MS, MBA, CFP® at *Creative Financial Services*, 262-820-0870, [www.cfsfeeonly.com](http://www.cfsfeeonly.com). The column is provided for your general information only and you should contact this planner or other professionals for specific advice regarding your unique situation.

