One of the easiest ways to increase your return on investments is to avoid paying commissions on the mutual funds in your portfolio. These commissions (commonly referred to as loads) can be in the form of an upfront load, back-end load, or an ongoing annual fee. Many of these commissions go unnoticed by and keep investors from really knowing how much they are paying in investment fees. I have many prospective clients come into my office who think they are getting advice for free when actually their broker is recommending mutual funds that carry a load and in-turn the broker is receiving a commission.

Mutual funds come in two broad categories based on how the fees are charged – load funds that charge a commission and no-load funds that do not. When brokers recommend a fund that charges a load, they receive a commission paid directly to them from the mutual fund company. As discussed here , this is where conflicts of interest can happen since brokers are only held to a suitability standard and can legally recommend a fund where they receive the highest kickback even though there is a lower cost option for their clients. This again shows the importance of using a fee-only advisor held to a higher fiduciary standard.

Not sure what type of fund you have? You can normally tell if the fund has a capital A, B, or C after the fund's name on your statement. "A" shares have an upfront commission that can be as high as 5.75%. "B" shares have a back-end commission that is deducted if you sell the fund in the first several years and have higher annual costs. "C" shares don't charge an upfront or back-end commission, but charge an annual 1.0% 12b-1 fee that is paid directly to the broker as an incentive for selling the fund.

Loads are completely unnecessary when it comes to buying a mutual fund. Investors should focus on finding the best no-load funds and avoid paying commissions to a broker. Please contact us for a review of your investments if you are not sure how much you are paying in commissions or do not fully understand your investment costs.