

The Inside Scoop on Mutual Fund Rip Offs

By Ulli G. Niemann

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The bear market that showed up at the end of 2000 has every brokerage house-as well as the entire mutual fund industry-scrambling to find creative ways to boost both their image and bottom line. Unfortunately, this is often at the investors' expense.

Fund managers are ever on the lookout for ways to spin the stats to hide lousy track records and to find ways to obscure fees. To add insult to (financial) injury, investors end up being penalized for selling. So what's an investor to do? In this case, knowledge is power. Here are some of the ways mutual fund investors are being taken advantage of:

- Performance is always an issue for any investor. Formerly great funds, which I've used myself during the 90s, are the junkyard dogs of this century. Janus Fund comes to mind and is one of many that buy-and-hold investors got stuck with. It's down 59%, since we acted on our Sell signal on 10/13/2000.
- Most of the funds today have 12b-1 fees place, and some go as high as 1% of a fund's assets per year. Between fees, commissions and management charges, the mutual fund industry is always getting paid, even if you, the investor, are losing money. For example, if you had bought SunAmerica 2-1/2 years ago, you would have paid the above fees at 2.35% per year. And, if you finally decided your investment wasn't going anywhere, you would have been stuck with a 5% deferred sales charge.
- If you hold a fund less than 180 days, plan on being hit with a redemption fee. It's almost standard. What's the deal? Brokers only get paid while you hold their fund. So, if you're going to sell, they get a last whack. It's a great deterrent for selling, too. Can this be avoided? Not completely, but if you have your money managed by an investment advisor, the holding period is reduced to 90 days.

· Then there's the deceptive no-load rip-off involving B-shares. Sure investors don't pay anything up front for these, but you'll pay hefty surrender fees when you sell. Plus, they carry higher management fees.

Keep in mind that mutual fund companies have market share in mind, not your best interest. If you think that might not be true, consider the skyrocket growth rate for pure technology funds. But look at them now: they've crashed & burned and no buy & holder has come out with a win.

Then there's the sad story of incompetence in the mutual fund industry. There are hordes of inexperienced financial planners (commissioned salesmen) just waiting to sell you load funds (A and B shares), or to recommend an asset allocation approach with no real plan or strategy that will serve you in a bear market.

Of course, there's always the option of having a perfectly balanced portfolio designed. Such was the case when a prospective client phoned me in 1999 during the height of the technology boom. He felt left out because everybody was making money in one of history's great bull markets, but his portfolio was so well balanced that he was neither making nor losing anything. He would have been better off in a money market account.

To me, the term balanced portfolio translates into this: I have no clue what I'm doing, where the major trend is, what I should be buying or whether I should be in the market in the first place. I'm hedging so much that one investment goes up and another goes down.

Balance is one thing and safety is really quite another. And mutual funds do not automatically mean either safety or balance. The key is always information-knowing how to get reliable info and what it means once you have it.

This is not for everyone. If you have money to invest and you don't have the time or the inclination to do the homework, then your smartest move is to find someone you trust. That would be someone with a track record you can verify, and someone who is not going to make money off your investment every time you buy or sell something.

People like this do exist, and the good news is you only need to do your homework once. That's when you check them out. From then on, you can relax knowing you're just not likely to fall prey to any of the rip-offs that are out there.

Ulli Niemann is an investment advisor and has been writing about objective, methodical approaches to investing for over 10 years. He eluded the bear market of 2000 and has helped hundreds of

people make better investment decisions. To find out more about his approach and his FREE Newsletter, please visit:<http://www.successful-investment.com>.

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