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I Bet Your Mutual Fund Manager Won't Tell You This

No doubt you have read the statistics over the years that perhaps only 30% of investment managers beat the market. Even that statistic is misleading because of all the fees and taxes an investor should consider.

Mutual fund companies almost never warn you about your tax costs and also seek to hide performance lag.

Here is one example. Oppenheimer Funds Main Street Fund has about \$6 billion in assets and the overall strategy we would estimate runs perhaps \$20 billion under portfolio manager Manny Govil, who took over the fund in May 2009 after building a successful track record at other firms.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 9M 2013 |
|---------------------------------|---------|--------|--------|--------|--------|------------------------------------|
| S&P 500 Total Return | (37.0%) | 26.5% | 15.1% | 2.1% | 16.0% | 16.5% |
| Main Street Fund | (38.7%) | 28.8% | 15.8% | (0.2%) | 16.6% | 19.0% |
| Tax impact | | (5.3%) | (3.0%) | (0.4%) | (3.2%) | (3.3%) |
| 12b-1 Fees | | (1.0%) | (1.0%) | (1.0%) | (1.0%) | (0.8%) |
| Return versus index - pre tax | | 1.3% | (0.3%) | (3.3%) | (0.4%) | 1.8% |
| Return versus index - after tax | | (4.0%) | (3.3%) | (3.7%) | (3.6%) | (1.5%) |
| | | | | | | AVERAGE (0.6%) (3.1%) |

When you read their online materials the company will show returns that, on the surface, seem pretty good. Comparing the fund to the S&P 500 would suggest Main Street fund delivered value, outperforming in 2009, 2010, 2012 and the first nine months of 2013.

If you are a taxable investor **pay attention to the fact that 20% of your profits will go to the government.** This is also true if you select your own investments but unlike a fund you get to determine the timing of the tax liability.

Then you have the “marketing expenses.” Oppenheimer will charge you 5.75% so they can pay the broker who sells you the fund on the front through its Class A shares. Many people instead opt for a different share class that foregoes the upfront charge but has a “back end” load if you liquidate in the first few years.

Well, if you just hold it no problem, right? Wrong! If you opt for the no load route Oppenheimer will charge you 0.99% for “12b-1” fees instead of 0.24% as on the load fund. Does this extra charge help you? No. They use it to pay their sales people to gather more assets on the theory that more assets will spread the costs wider. Yet somehow the expense ratio on these funds will never go down.

In the end, even with an above average money manager like Manny Govil running this fund **the average investor will lose about (3%) annually when all the costs are factored in.**

Remember, keep your costs down and only pay for value.

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