

INSIGHT

Here's a fund fee shareholders should be glad to see

MONEY has been telling you for years that most mutual fund companies charge far too much in annual management fees and other expenses. We still believe that—but there's one kind of fee that's a good deal for investors. Often called a transaction fee, it's typically a 0.5% to 2% charge levied to defray the costs that funds incur when investors redeem their shares (although a few funds charge shareholders a transaction toll when they buy, as well). Other kinds of fund fees go straight into the pockets of the management company or other outfits that help administer or market the fund. But the transaction fee goes back into the fund's portfolio for the benefit of shareholders.

“ Unlike other fund fees, which go into the pockets of management, these charges benefit shareholders. ”

According to Lipper Analytical Services, at least 63 funds with a total of \$23 billion in assets charge such fees. Among them are such well-respected entries as **Acorn International, Fidelity Emerging Markets, Schwab 1000, Scudder Latin America, T. Rowe Price International Discovery and Vanguard Index Extended Market.**

We think these funds deserve their customers' gratitude. Why? While there are plenty of sound reasons to bail out of a fund, transaction fees can be a serious deterrent to itchy-fingered investors. It's only fair for short-term traders who leave the fund to pay an exit fee. After all, when redeeming shareholders leave,

they force the fund to sell stock to cash them out. That causes the fund to incur commissions and other trading costs that hurt the remaining investors' returns. Academic research suggests that such costs can exceed 1% of the value of each purchase or sale. The trading impact can surpass 2% at funds that invest in small stocks or emerging markets—which is why transaction fees are more common at such funds. "It's hard to swallow for most people," says Lipper's Jeffrey Keil, "but a transaction fee does soften the blow to net asset value that trading can cause."

Vanguard International Index-Emerging Markets Portfolio, for instance, charges a 2% transaction fee to buyers, plus a \$10 annual "account maintenance fee," as well as a 1% redemption fee. If you buy \$10,000 worth of this fund, then sell it all a year later, you'll fork over \$310, or 3.1%. But your more patient fellow shareholders will benefit. "If we didn't collect transaction fees," says Vanguard spokesman Brian Mattes, "we'd have to deduct the trading costs from the income dividend"—which would reduce total return.

The bottom line: Transaction fees penalize speculators and reward long-term investors. We think you should invest for the long haul, so transaction fees are one expense you should be happy to see your fund charge.

—Jason Zweig

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