

## **[Screening mutual funds on-line with Morningstar.com \(Part 1 of 2\)](#)**

**Category : On-line Screening of ETFs and Mutual Funds**

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*Summary:* In this two-part article, *The Skilled Investor* discusses how to screen mutual funds on-line using our seven scientifically based mutual fund screening criteria. This article focuses on using the free mutual fund screener and database available at Morningstar.com. In a previous article, *The Skilled Investor* has discussed minimum requirements for using on-line screeners and fund databases to screen automatically the thousands of mutual funds and hundreds of exchange traded funds (ETFs) that are available. (See: [On-line screening of mutual funds and ETFs: Minimum Requirements](#)). That article concluded that free fund screeners and databases offered by Morningstar.com and IndexUniverse.com are sufficient to allow you to screen mutual funds, index funds, and ETFs and to use our scientific fund selection criteria. Because we found adequate free screeners to implement our criteria, paying a subscription to any website to obtain more advanced functionality is not necessary.

Note that there is no business arrangement of any kind between *The Skilled Investor* and Morningstar.com or IndexUniverse.com. These websites simply meet the requirements laid out in our article on minimum requirements. A related article also discussed seven scientifically derived fund screening criteria: 1) minimum management expenses, 2) minimum turnover, 3) zero sales charges, loads and marketing fees, 4) avoidance of very large funds with higher trading costs, 5) avoidance of immature funds, 6) a minimally sufficient asset base over which to spread required fund expenses, and 7) the exclusion only of funds with very poor historical performance records. (See: [Scientific mutual fund and ETF screening criteria: a summary](#)) You can find Morningstar.com's free screener at: <http://www.morningstar.com/> Click on "Funds" in the horizontal tabs, look for "Morningstar Tools," and click on "Mutual Fund Screener." When this article was published in early February of 2007, the direct URL address was: <http://screen.morningstar.com/FundSelector.html?fsection=ToolScreener> Obviously, the Morningstar.com site will offer enticements that you should deal with as you please. In the opinion of *The Skilled Investor*, Morningstar.com is valuable primarily because of its relatively complete mutual fund database. However, as any astute consumer in the financial marketplace grows to understand, there usually are pluses and minuses with any financial service. Of particular concern to *The Skilled Investor* is the widespread and questionable industry and consumer usage of Morningstar's five-star Star Rating system. However, this subject is beyond the scope of this article. For more see: [Investment astrology &ndash; should you pick investments according to the Morningstars?](#) That article will lead you to additional articles about Morningstar. To apply *The Skilled Investor's* seven scientific selection criteria to Morningstar's mutual fund screener is a two-step process. First, six of the seven screening criteria can be applied directly and automatically to obtain an initial screened fund list. Then, you need to evaluate further the screened fund list to pick particular funds for your investments. STEP ONE: CONDUCTING THE AUTOMATED INITIAL SCREENING PROCESS Once you have the Morningstar.com mutual fund screener open in your web browser, the following settings will implement six of our seven selection criteria. Use the pull-down menus to set values. Click the light bulb symbols, if you want background information.

Once you set all the screening variables the way that you want them to be, then click the "Show/Score Results" tabs at the top or bottom of the screener list. You can always click the "Change Criteria" tab to adjust your settings. We suggest the following initial screening settings to cut down the number of mutual funds. We have chosen these settings to implement our scientific screening criteria (see the notes below):

- 1) FUND GROUP: Choose one of the five categories depending on the general type of fund you want
- 2) MORNINGSTAR CATEGORY: Leave as "Any," unless you really understand why you are looking among these subcategories. Even then, it is probably better to use "Any" to start, because the other screener settings should be sufficient to get your list down to a manageable size.
- 3) MINIMUM INITIAL PURCHASE PRICE LESS THAN OR EQUAL TO: Set initially at \$10,000. You can always revise this later to be more stringent. This setting will screen out some, but not all institutional funds from the listing. Retail funds are those funds that allow investors to make purchases directly or through an advisor who sells funds. You will still need to recheck your screened list for remaining institutional funds, because some institutional funds are listed as having a \$0 minimum in the Morningstar database. You do this by changing the "Snapshot" view on the Results page to the "Nuts & Bolts" view, then click on the "Min Initial Purchase (\$)" header to get an ascending dollar list. The funds with \$0 minimums are probably institutional funds.
- 4) LOAD FUNDS: Select "No-load funds only." This setting should implement our screening criteria #3) "zero sales charges, loads and marketing fees." It would also tend to eliminate funds that sell exclusively through commissioned advisors and that do not allow direct customer purchases.
- 5) EXPENSE RATIO LESS THAN OR EQUAL TO: Select ".5%" This setting should implement our screening criteria #1) "minimum management expenses." When you get your screened list, you should probably be looking within it for even lower cost funds than .5%. There should be no reason to increase this screener setting to "1%," because there should be plenty of funds to choose from below .5%. If there are not, first you probably should change other criteria such as fund size to screen in more funds, instead of raising your limit on the expense ratio. (Note that we plan to publish additional articles in the near future on index mutual fund and ETF screening, and these articles should allow you to identify additional low cost fund choices.)

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