Screening index mutual funds on-line with IndexUniverse.com (Part 2 or 2)

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Summary: In this two-part article, The Skilled Investor discusses how to screen index mutual funds and ETFs on-line. This article focuses on using the free index mutual fund and ETF screener and database available at IndexUniverse.com. It also discusses the application of our seven scientifically based mutual fund screening criteria, during this process.

STEP TWO: EVALUATING THE SCREENED LIST TO CHOOSE INDIVIDUAL INDEX FUNDS AND ETFs FOR YOU INVESTMENTSBy choosing the screener settings described above, we can implement two of the seven scientific mutual fund and ETF screening characteristics automatically: "#1) minimum management expenses" and "#6) a minimally sufficient asset base over which to spread required fund expenses." While this leaves five criteria for manual evaluation, the point of an automated screener is simply to get a much larger list down to more manageable size. In February of 2007, these two screening criteria with asset classes set to "All" cut down a list of 800 index mutual funds to just over 100. Selecting only domestic equity asset classes reduced the list to about 70 funds.While this resulting number of funds may seem to be too large, there are easy ways to cut the list down quickly. Many index mutual funds are offered only for direct investment to institutional clients. Institutional funds are available to individual investors, only if individuals have access to such funds via a 401k or other plan, for example. Therefore, to eliminate these institutional funds, sort the screened list by clicking on the "Min. Initial Purchase" or "Min. IRA Purchase" column headings. Less than 25 of the 70 domestic equity funds mentioned above allow Initial Purchases of $10,000 or less. Also, note that when there is no entry for "Min. Initial Purchase," the fund is probably an institutional fund. Very often, you can tell an institutional fund, because it will have "Inst" in its name.Concerning the remaining scientific criteria that need to be screened manually, you can check "#2) minimum turnover" for your final list, but it should be relatively bizarre to see very high turnover in a passive index mutual fund that seeks to track an index. Concerning "#3) zero sales charges, loads and marketing fees," simply buy directly from a fund and avoid paying the middleman. (Note that some index funds, such as the Dimensional fund family, cannot be purchased without using an advisor, which involves cost tradeoffs.)Concerning, "#4) avoidance of very large funds with higher trading costs," this selection criteria is less important for very large passively managed index funds than for very large actively managed funds. However, this is still an important issue and greater fund size can increase trading costs -- particularly when an index fund has to react to changes in the composition of the underlying index. Concerning "#5) avoidance of immature funds," the minimum asset size selector (#6) has probably knocked out many of the more immature funds. Nevertheless, you can check this for the few funds that make your final list. Finally, concerning "#7) the exclusion only of funds with very poor historical performance records," some passive index funds do a better job of managing performance than others do. Again, this is primarily related to how the fund manages trading associated with changes to the underlying index.Once you have your much smaller, screened list of funds, you can investigate the remaining funds in greater depth. If you have too few / too many funds, revise your criteria to be less/more

restrictive. When you find an index fund that is interesting, you can go to the website of the fund family. With your screened results from IndexUniverse.com, there are a couple of ways to find the fund family quickly, using your favorite search engine. For example, copy the Ticker Symbol into Google, and you are likely to find the fund as the top result. Alternately, click on the fund name in the screenedIndexUniverse.com list and some information about the fund will be displayed, but no URL. Nevertheless, just copy the telephone number into Google, and you will usually find the fund's website near the top of the search results.Once you are satisfied with one or several index mutual funds or ETFs that meet your investment criteria, then you can invest directly with the fund(s) you like. The only cost to you of buying index mutual funds directly is your personal time and effort. However, the savings value can be huge over your lifetime, if you buy funds directly and cut out very costly sales agents in the middle.

Note: If you want to understand how much you personally could waste by paying excessive fund investment costs over your lifetime, see this article about VeriPlan's automated lifecycle investment cost analyzer. Across your lifecycle, VeriPlan automatically projects the full value of the personal assets you could lose to the five main types of investment costs. VeriPlan develops projections that assume you will continue to invest at the same level of cost-efficiency or cost-inefficiency associated with your current financial asset portfolio. Alternatively, VeriPlan's automated Cost-Effectiveness Tool lets you compare investment costs that you believe are more reasonable to pay versus the investment costs of your current portfolio. ____

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