Understanding one-time investment fees, such as sales loads

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Understanding one-time investment fees, such as sales loadsSales load charges and commissions on investment purchases differ from the financial service industry's numerous other recurring methods of charging fees to their retail consumers.Sales loads are less straightforward to analyze for investment lifetime cost-effectiveness, compared to annually recurring charges. (See: Pay less to get more) Unlike recurring charges against current assets, front-end sales loads represent assets that did not get into your investment portfolio in the first place. They disappear before the process of calculating future investment returns and asset values can even begin. Therefore, your financial modeling software needs to remember that you lost or will lose these assets, and it needs to calculate the cumulative value of these ‘phantom’ assets over your lifetime.Concerning the mechanics of a front-end sales load, when you pay a front-end load, some of your total payment is deducted at the beginning of the investment process. Depending upon the percentage of the front-end load charged, the amount invested on your behalf is reduced by the front-end load charge. If you write a check for $1,000 and the front-end load is 6%, then the sales load will be $60 and the remaining $940 would be invested for you. If you want to have $1,000 actually be invested for you when you pay a 6% load charge, then you must write a check for $1063.98. The front-end load formula used is: “Total $ Investment & Load charge” = “Actual $ Investment” / (1 – “% Load”).When you buy mutual fund shares, the securities industry is gracious enough to offer you a supposed choice in this matter. You can choose between A, B, and C mutual fund share classes, when you pay sales loads. In doing so, industry sales representatives may suggest that you get to choose what is “best” for yourself. In this faux decision process, which The Skilled Investor has dubbed the "ABC Share Class Shuffle," individual investors choose a share class. In the ABC Share Class Shuffle you really just choose one form sales fee over another. As long as you buy and pay a fee, the sponsoring firm and the sales rep do not care which choice you make. (See: Can you really get free and objective investment advice, when you pay investment sales loads?)Brokerage firms understand well the behaviors of their individual investor customers. While brokerage firms provide apparent choices to pay front-end loads versus back-end loads with higher and lower annual investment fees, you can expect that the pricing of these alternatives will be neutral on a risk-adjusted basis from the investment bank’s point-of-view. It is probable that brokerage firms price their loads to be roughly equivalent on an expected profits basis and then let their customers sort themselves by personal preferences. Investors try to pick the fee that would be least costly, but they pay too much no matter what.