

## **[The Fund Authority Score - The Best Mutual Fund and ETF Rating System](#)**

**Category : The Fund Authority Score System for Evaluating Mutual Funds and ETFs**

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The Fund Authority Score - The Best Mutual Fund and ETF Rating System Fund Authority Scores rate mutual funds and ETFs on the most important economic factors influencing long term diversified investment fund performance. *The Skilled Investor* developed the Fund Authority Score system to provide individual investors with concise and objective mutual funds and ETF comparisons within investment asset classes. Fund Authority Scores measure investment fund cost, maturity, efficiency, and performance factors. Fund Authority Scores use only those objective measures that have been demonstrated in the financial research literature to be correlated with improved investment results over long time horizons, when using a buy-and-hold personal investment strategy. You can find a [directory of Fund Authority Scores for mutual funds and ETFs here](#). Using a "worst to best" integer scale ranging from minus 10 to plus 10, Fund Authority Scores weigh most heavily the investment expenses and costs that investors pay repeatedly. Additional scoring weight is given to historical performance, investment fund maturity, and fund operating efficiency. (See this article for an explanation of how Fund Authority Scores are determined: [The Mechanics of the Fund Authority Score System for ETFs and Mutual Funds](#)) Within each investment asset class, no-load mutual funds and ETFs with very low direct and indirect costs are much more likely to receive high Fund Authority Scores and to sustain those scores over the long-term. Expensive funds tend to receive lower Fund Authority Scores, even though they might have demonstrated above average performance recently. Superior past performance has never been demonstrated to be a consistent predictor of better mutual fund and ETF performance in the future. The most reliable predictors of future investment fund performance are direct investment expenses and hidden transactions costs. If you do not first extract the influence of direct and hidden investment costs, when selecting mutual funds and ETFs, you are far more likely to reach spurious conclusions and to make poor investment fund choices. Similarly, it is a waste of your valuable time to track the individual records of portfolio fund management personnel. Most professional diversified investment fund managers are well educated, intelligent, experienced, and highly motivated by substantial compensation. Securities market competition tends to make the vast majority of these "above average" persons just average in the long term from a gross investment performance standpoint. What is left in the historical performance record tends to be just luck rather than skill - particularly when risk-adjusted returns are measured AFTER investment costs and taxes. (See these articles: [Luck versus Skill](#)) A simplifying mutual fund and ETF rating system should not ignore these most important economic factors - such as high management expenses, sales loads, marketing fees, high turnover, etc. - while it instead includes a very heavy weighting of superior historical performance that is rarely sustained. Because individual investors intend, for example, to pay for their children's education and a comfortable retirement, most have very long investment horizons. If a rating system emphasizes past performance, it is almost guaranteed to cause the vast majority of these investors to suffer lower returns. The reason is simple. Investors will be fooled and enticed to select funds with accidentally superior past performance. In the process, they will overlook excessively high management costs and sales fees associated with most investment funds. They will pay too much in sales loads to buy funds and they will pay too much year after year. They will pay attention to unsustainable past performance and be told by investment counselors that investment costs as "just a few percent." See this article: [Excessive investment costs are a huge problem for individual investors](#). A better ETF and mutual fund

rating system should emphasize economic factors that are substantial and that repeat year after year. A very heavy emphasis on rating positive past performance virtually guarantees that the great majority of individual investors will chase the illusion of performance and suffer much lower returns long term net returns after investment expenses and taxes. The Fund Authority Score rating system is designed to avoid enticing individual investors to select funds with accidentally superior past performance and the likely prospect of mediocre, high cost future performance. Instead, it focuses on guiding individual investors away from high cost, high turnover funds that bleed their net asset returns year after year after year after year ... Fund Authority Scores help individual investors analyze mutual funds and ETFs within investment asset classes. Fund Authority Score is designed to help investors distinguish between similar diversified mutual funds and ETFs within a particular investment asset class, such as U.S. large capitalization growth stocks, global small capitalization value stocks, or investment quality European commercial bond funds. When establishing a sustainable investment strategy, investors need to determine what their asset allocation strategy will be. For more information on asset allocation see these articles: [Asset Allocation and Risk Tolerance](#). After an investor has determined the proportions of their overall investment portfolio that they wish to allocate to particular investment asset classes, they are faced with the choice of how to invest most efficiently with respect to expected risk-adjusted returns within each particular investment asset class that they have chosen. Within any asset class, the factors that compose the Fund Authority Score system retain their logic. Visible and hidden investment costs, fund performance record, fund maturity, and fund operating efficiency all tend to be important economic influences upon future performance within any investment asset class. The Fund Authority Score provides a relative measure across investment funds within any investment asset class. *The Skilled Investor's* perspective on matters of investment selection can be found in these articles: [Selecting Investment Funds - Mutual Funds and ETFs](#). In short, as long as individual investors have a choice, mutual funds and ETFs with lower costs, lower turnover, better portfolio risk control, and lower capital gains taxes should always be preferred to other investment funds. Investment funds are almost always preferred over the inefficient and usually very inferior option of investment portfolio self-assembly using individual securities. (See these articles: [Diversify Assets](#) and [Personal Efficiency](#))

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These related articles may also be useful to you: [Selecting Investment Funds: ->Rational selection of bond and equity mutual funds and ETFs -- overview](#) ->[Avoid mutual funds and ETFs with sales commissions and 12b-1 fees](#) ->[Avoid mutual funds and ETFs with higher investment portfolio turnover](#) ->[Avoid very large actively managed mutual funds and ETFs](#) ->[Evaluate historical investment performance, but only after using other investment screening criteria](#) [Controlling Investment Costs:](#)  
->[Excessive investment costs are a huge problem for individual investors](#) ->[How much do hidden mutual fund trading expenses cost you?](#) ->[Beware of large and hidden mutual fund costs](#) ->[Invest in fixed income securities through bond mutual funds with low investment fees](#) ->[Is it worth paying higher bond mutual fund management fees?](#) ->[Passive individual investors are &ldquo;free riders&rdquo; who benefit from the higher costs of active traders](#) ->[The investment industry is not your investment partner](#)