

[The Mechanics of the Fund Authority Score System for Stock ETFs and Mutual Funds](#)

Category : The Fund Authority Score System for Evaluating Mutual Funds and ETFs
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Fund Authority Scores for Stock ETFs and Mutual Funds - Management expenses, sales loads, and trading cost factors Fund Authority Scores range from -10 to +10 and measure five factors for diversified stock or equity investment funds: 1) annualized management and sales expenses, 2) trading costs, 3) historical performance, 4) fund maturity, and 5) operating efficiency. [Go to Part 2 -->>](#)

This article explains how Fund Authority Scores rate stock or equity mutual funds and ETFs on the economic factors that most influence long term diversified stock investment fund performance. Part 2 discusses how historical performance is measured. Part 3 discusses the investment fund maturity and operating efficiency factors. For an overview of what Fund Authority Scores mean, see the article: [The Fund Authority Score - A better mutual fund and ETF rating system](#). You can find a [directory of Fund Authority Scores for mutual funds and ETFs here](#). FACTOR 1: Annualized Investment Management Expenses and Sales Load Fees (-4 to +4 points) Combined, portfolio management expenses, sales load fees, and marketing fees account for 40% of the overall Fund Authority Score for a particular stock mutual fund or ETF. First, a total annual direct ETF or mutual fund expense percentage is calculated. This total annualized expense figure combines:

- the management expense ratio and any marketing fees (e.g. 12b-1 fees)
- the annualized cost of any front-end sales loads amortized over 5 years *

* Note that for investment funds with sales loads, we develop Fund Authority Scores using Class A shares, which emphasize front-end sales loads. Brokers selling loaded investment funds may also offer alternative share classes with different mixes of sales loads and annual management fees. Such Class B shares and Class C shares may involve higher annual fees and/or deferred sales loads instead of front-end sales load charges. Because Class A, B, and C shares tend to be priced with rough equivalence from the selling broker's point-of-view, the Fund Authority Scores for Class A shares are a good indicator of equivalent Fund Authority Scores for Class B shares and Class C shares. (See this article: [Understanding one-time investment fees, such as sales loads](#)) (For more background on these important cost factors, see the articles in this category: [Controlling Investment Costs](#). In particular, read [The heavy burden of recurring investment fees](#) and [Pay less to get more](#))

Next, these combined annual management expenses and annualized sales load costs are rated using the following point scale. A stock ETF or mutual fund can score from -4 to +4 points on this total annual direct cost factor. SCORING FOR THE TOTAL ANNUAL DIRECT EXPENSE FACTOR:

- 0% to .25% in combined annual direct expenses = +4 points
- greater than .25% to .50% in combined annual direct expenses = +3 points
- greater than .50% to .75% in combined annual direct expenses = +2 points
- greater than .75% to 1.00% in combined annual direct expenses = +1 point
- greater than 1.00% to 1.25% in combined annual direct expenses = 0 points
- greater than 1.25% to 1.50% in combined annual direct expenses = -1 point
- greater than 1.50% to 1.75% in combined annual direct expenses = -2 point
- greater than 1.75% to 2.00% in combined annual direct expenses = -3 points
- greater than 2.00% in combined annual direct expenses = -4 points

FACTOR 2: Hidden Stock

Fund Trading Costs using Fund Portfolio Turnover as a Proxy (-3 to +3 points) While hidden stock mutual fund and ETF trading expenses are not directly visible to individual investors, a mutual fund's turnover ratio gives a strong indication of the hidden trading expenses that a mutual fund incurs. A lower turnover ratio is much better and usually contributes to higher returns. The scientific investment literature indicates that the average active stock mutual fund manager tends to fall further behind his index benchmark, the more he trades. (For more information about the detrimental effects of high fund turnover and trading costs, see [Beware of large and hidden mutual fund costs](#) and [How much do hidden mutual fund trading expenses cost you?](#)) The Fund Authority Score uses increasing portfolio turnover as a proxy for increasing transactions costs. Rated on a scale from -3 to +3, hidden trading costs account for 30% of the total weighting of an overall Fund Authority Score for a stock mutual fund or ETF. Portfolio turnover is rated on the following point scale.

SCORING FOR THE HIDDEN TRADING COST FACTOR

- 0% up to 25% annual portfolio turnover = +3 points
- greater than 25% up to 50% annual portfolio turnover = +2 points
- greater than 50% up to 75% annual portfolio turnover = +1 point
- greater than 75% up to 100% annual portfolio turnover = 0 points
- greater than 100% up to 125% annual portfolio turnover = -1 point
- greater than 125% up to 150% annual portfolio turnover = -2 points
- greater than 150% annual portfolio turnover = -3 points

[Go to Part 2 -->>](#)

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 "free riders" who benefit from the higher costs of active traders](#) ->[The investment industry is not your investment partner](#)