

*Work!*

## **Fund Authority Scores - Taking the Snake Oil Out of Investment Fund Evaluation**

**Category : The Fund Authority Score System for Evaluating Mutual Funds and ETFs**  
**Published by [The Skilled Investor](http://www.theskilledinvestor.com) on Nov/30/2007**

Fund Authority Scores - Taking the Snake Oil Out of Investment Fund Evaluation Superior mutual fund and ETF performance charts are the sales tools of modern financial snake oil salesmen. Historical performance charts allow investment fund promoters to selectively market their supposedly superior funds and to allege that their excessively high fees are worth it. Lured in by superior past performance, most often individual investors will get mediocre future performance before costs and even worse performance after costs. Unreasonably high investment expenses, industry sales and marketing fees, and excessive yet hidden, performance killing portfolio trading costs are the real economic factors that investors should pay attention to -- not the snake oil of historical performance charts. See this article: [How to lie with statistics: Investment performance charts](#). The Fund Authority Score system zeros in on your expected costs, because lower investment fund expenses and lower portfolio transactions costs repeatedly have been proven to increase mutual fund returns over the long term. Fund Authority Scores focus on the very heavy long term burden of unreasonably high investment expenses, excessive industry sales and marketing fees, and performance killing portfolio transactions costs. (See this article: [Pay less to get more](#)) Fund Authority Scores are a better ETF and mutual fund performance rating system. Fund Authority Scores intentionally do not emphasize past performance measures, because market volatility, randomness, and plain old dumb luck in portfolio securities selection greatly influence historical fund performance. Study after study has shown that most mutual funds tend to demonstrate a "reversion toward the average" over longer periods of time. Investment funds simply tend to have lucky and unlucky streaks that are not sustained. Furthermore, there seems to be no reliable way to tell which fund might sustain a superior past performance record. Superior past performance simply is not a reliable indicator of better future performance. In contrast, lower management, marketing, and trading costs are a far better indicator of which funds will tend to do better in the future. This is what counts to every individual investor -- what ends up in your portfolio when you need it later. The level of competence is very high across most mutual funds and ETFs and global real-time auction securities markets have a leveling effect. Modern securities markets make almost everyone average in the long term, before costs are considered, and costs remain as that most influential long term differentiating factor. After visible and hidden costs are taken into consideration, funds with lower costs and lower turnover tend to be the big winners. (See this article: [The illusion of superior professional investment manager performance](#)) Therefore, the Fund Authority Score rating system avoids giving a big reward to past investment fund returns that most likely were just the luck of the draw. The Fund Authority Score does include a past performance factor, but the focus of this measure is to penalize substantially inferior past performance. Substantially inferior fund performance has been shown to be correlated with somewhat inferior performance in the future. Substantially inferior past performance also has been correlated with excessive costs. Fund Authority Scores give modest credit to average past performance and a little more credit to superior past performance. This is appropriate given the huge element of luck in superior historical performance. (See these articles: [Scientific mutual fund and ETF screening criteria - a summary](#), [Investment Astrology](#), and [What the instability of mutual fund Morningstar Ratings means for long-term investors &ndash; a commentary](#)) Fund Authority Scores rate mutual funds and ETFs on the most important economic factors that influence individual

investors' net long term diversified investment fund performance *The Skilled Investor* developed the Fund Authority Score system to provide individual investors with concise and objective comparative summaries of mutual funds and exchange-traded funds (ETFs) within investment style categories. 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](#))

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](#)