Myths of Load Verse No Load Funds

Two common statements that we often hear are that no load mutual funds usually have higher management expense ratios, and that Load Funds normally outperform no load funds. In the first case, the assumption is, that since there is not a load, the management expenses must cover the sales costs. Therefore, they must be higher. The second assumption assumes that the best managers work for companies that charge a load because they pay better.

Since we could not confirm or deny the above, about two years ago, we did some analysis. The analysis may not tell us much about how managers are paid, but it will answer questions about what you, the investor pays.

The first statement says that no load mutual funds have higher management expense ratios. To determine if this is true, we analyzed 214 Canadian Equity funds. Of these, 113 or 53% had loads. So, about half had loads, therefore, if the statement is true, then the funds with the lowest management expense ratios, should be mostly load funds. What we found, was that of the 54 funds (25%) with the lowest ratio, only 30% had loads. Also, of the 107 funds (50%) with the lowest ratio, 38% had loads.

It seems that the statement is false. The above analysis indicates that no load funds are more likely to have lower management expense ratios.

The second statement suggests that funds with loads usually outperform no load funds. To test that, we took the Canadian Equity funds and ranked them according to their 10 year returns. This included 65 funds, of which 43, or 66% had loads. We found that of the top 25%, 69% had loads, and of the top 50%, 63% had loads. This indicates that the returns of the load and no load funds are fairly equally distributed.

To further test this, we analyzed the 5 year returns for 130 Canadian Equity funds. Of these 58% had loads. Our results confirmed the above. Of the top 25%, 56% had loads, and of the top 50%, 55% had loads. Again, the loads and no loads were fairly equally distributed.

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Considering this, it appears that the second statement is also false. Load funds do not necessarily outperform no load funds.

What does that mean to you? In our opinion, it means that you should concentrate on the quality of the funds and their managers. These will impact your returns far more than the type of load. You should not assume that the type of load tells you something about performance, or performance net of fees, as our analysis indicates that it does not.

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Your Questions