What Is a Mutual Fund Load?

Mutual fund transactions can be complicated, especially with the fees and expenses that accompany the process. It's important to understand mutual fund load, or sales, charges, and exactly what they entail so you can make informed investing decisions.

A "load" is a fee charged to an investor who buys or redeems shares in a mutual fund. It is similar to the commission that investors pay when they purchase a stock. There are two general types of sales loads. If a sales load is required at purchase, it is called a "front-end" sales load; if it is charged when shares are redeemed, it is a deferred or "back-end" sales charge." The most common type of back-end sales load is a "contingent deferred sales charge" or CDSC. The amount will depend on how long an investor held the shares, and it could be nothing if they were held long enough.

Loads generally compensate brokers and/or salespeople for selling you a fund. For example, it might help compensate a financial professional who spends time with you at the beginning of your relationship, learning about your objectives and helping with your investment program. Brokers might also continually keep in touch with you and answer any questions you have. This communication can be particularly handy for busy people whose idea of investment tracking amounts to little more than an occasional call to their financial professionals.

Funds without load fees are called "no-load funds." These funds are distributed directly by the investment company and therefore do not need to charge for brokerage services.

Despite this, all funds, even those with load charges, also have management and expense fees. Management fees pay for the administration of the fund and are usually based on a percentage of the fund's assets. There are also 12b-1 fees, or distribution fees, that compensate brokers and other sellers of mutual funds for advertising and marketing costs. These fees are typically a very small percentage of the fund's assets, often less than a half percent.

Funds that charge loads may have lower 12b-1 fees and administration fees, so when you are deciding which type of mutual fund to purchase, it is important to review all the costs and fees involved to see which funds may work best for your investment purposes. Fees and expenses vary from one fund to the next. When assessing different mutual funds, a fund with higher fees and expenses would need to generate higher returns than another fund with lower fees as higher fees can lower your returns.

Mutual fund share prices fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher rates of return also involve greater risk.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.