

Cheaper Funds Are More Successful: Morningstar

By Whitney Curry Wimbish, BoardIQ, May 17, 2016 [subscription only]

http://boardiq.com/c/1360473/155113/cheaper_funds_more_successful_morningstar?referrer_module=issueHeadline&module_order=5

Directors often aim for their funds' fees to be in the middle of their peer group. Data from **Morningstar** suggest they might want to aim lower.

“When fund boards talk about fees, their goal is simply to be below median,” says Russel Kinnel, director of Morningstar research. That can mean a single basis point below the median.

“But each successively cheaper quintile does significantly better than the one that’s pricier,” he says. “What that tells me is that just being below median is a fairly low bar.”

The Morningstar report shows that, as Jack Bogle says, the expense ratio is the most reliable predictor of future fund returns.

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Niels Holch, partner at **Holch & Erickson** and executive director of the Coalition of Mutual Fund Investors, says the Morningstar research is a good reminder even if the message is one of many factors keeping mutual fund fees down.

“It should help investors make decisions: a fund that has lower fees has a better chance of beating the market or keeping up with the market,” he says. “You would hope mutual fund boards would look at this also and try to do everything they can to lower the fund cost structure.”