

Morningstar FundInvestor Portfolios | Christine Benz

## Checking Up On Our Funds' Costs

Expense hikes are prevalent in the industry, but our portfolios remain good and cheap.



**Christine Benz**  
Editor of  
Morningstar  
FundInvestor

### What are Morningstar FundInvestor Portfolios?

Our three portfolios are designed to suit investors with a variety of goals and time horizons. You may want to adjust your allocation to each asset class to suit your needs, however. We'll track our performance and offer commentary in each month's issue.

As Russel Kinnel noted in his article on Page 8, investors need to be on the lookout for higher fund expenses. As many fund companies have seen their funds' assets shrink over the past few years, they've sought to remedy their shrinking fee income by hiking costs.

In the spirit of practicing what we preach, we'll check up on our portfolio funds' expense ratios in this month's issue, and also take a look at our aggregate costs for each portfolio. We favored low-cost funds when building our portfolios, but we wanted to make sure that our holdings were still good and cheap.

### Aggressive Wealth Maker

Within our Aggressive Wealth Maker Portfolio, every fund checks in with an expense ratio lower than its category average. Better still, the asset-weighted expense ratio of our overall portfolio, at 0.96%, is substantially lower than a hypothetical portfolio of funds with average expense ratios within their categories.

That's impressive when you consider that one of our small-cap funds, **Bogle Small Cap Growth** BOGLX, closed to new investors when its asset base was quite small. And our "Hidden Gem" with a tiny asset base, **ICAP Select Equity** ICLSX, also charges a very reasonable expense ratio, just 0.80%.

One fund whose expenses we'd like to see come down is **Western Asset Core** WATFX. Although the fund's institutional share class' expenses clock in at an ultra-low 0.50%, the share class that's available to retail investors goes for 0.75% per year. That's still below the intermediate-term bond fund category average, but ideally it would be even lower. Our fixed-income benchmark, **Vanguard Total Bond Market Index** VBIMFX, charges just 0.22%.

### Wealth Maker

The Wealth Maker includes sizable stakes in index funds, so its overall expense load is nice and low— at 0.66%, our aggregate portfolio's asset-weighted expense ratio is half that of a hypothetical portfolio of funds with average expense ratios within their categories.

**Janus Mercury** JAMRX did see a slight fee hike in 2002, to 0.92% from 0.88% in 2001, reflecting the fund's steep decline in assets over the period. Nonetheless, Mercury's expense ratio is still well below that of the typical large-cap growth fund, and it's also lower than some funds with larger asset bases, such as the \$19 billion **American Century Ultra** TWCUX. **Tweedy, Browne Global Value** TBGVX is the priciest fund in the portfolio, but it's a bargain by foreign-stock fund standards, and we're encouraged that Tweedy has lowered expenses as assets have flowed in.

### Wealth Keeper

In our lowest-risk portfolio, where we also expect our long-run returns to be lower, all of our funds' expenses clock in comfortably below their category averages. Our portfolio's asset-weighted expense ratio is 0.65%, versus 1.20% for a hypothetical portfolio of funds with average expense ratios within their categories.

That's as it should be: With the exception of the tiny **Selected Special** SLSXX, all of our holdings have fairly large asset bases, so we expect them to pass on their economies of scale to their shareholders. Our foreign-stock fund, **Julius Baer International Equity** BJIBX, is the highest-cost fund in the portfolio, but we're satisfied that Julius Baer is bringing expenses down as the fund gathers more assets. Once again, our two Vanguard funds are the low-cost champs within this portfolio. **Northeast Investors** NTHFX, our high-yield bond fund, is also one of the least-expensive funds in its category. ■

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