



## Are Some Money Funds Price Gouging?

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With interest rates low and money market fund assets soaring to new heights, some fund companies are ripping off their customers, analysts say.

Despite firms' shared belief that these products are competitively priced, there are hundreds of funds charging hefty prices for cash management. Many of the funds even include sizable distribution fees to compensate brokers for selling them.

With the stock market foundering and most asset classes taking it on the chin, the flood of cash into money market funds has been robust. Money market fund assets reached an all-time high of \$3.3 trillion last week, according to **Financial Research Corp.**

And for good reason: They offer a safe, liquid, low-yielding investment and an avoidance of languishing stock sectors, enabling shareholders to retrench without stuffing their savings under the mattress. Net sales of money funds have outpaced traditional mutual funds and ETFs combined by a 2-to-1 margin since the beginning of 2007, FRC says.

| Ducking for Cover   |                    |                |                |                |
|---|--------------------|----------------|----------------|----------------|
| Money market fund sales have outpaced mutual fund and ETF sales by a wide margin as jittery investors have shifted cash to the sidelines. |                    |                |                |                |
| FRC FUND UNIVERSE   | YTD NET FLOWS 2008 | NET FLOWS 2007 | NET FLOWS 2006 | NET FLOWS 2005 |
| Money Mkt   | 205,708            | 612,794        | 218,030        | 57,649         |
| Long-term   | 76,974             | 229,164        | 233,582        | 205,199        |
| ETF   | 23,284             | 147,596        | 64,761         | 55,581         |
| <b>Total</b>  | <b>305,966</b>     | <b>989,554</b> | <b>516,374</b> | <b>318,430</b> |

Excludes funds of funds, as of June 2008  
Flows in \$Millions

Source: Financial Research Corp.

Since most money market funds compete solely on their yield, little attention is paid to the fees customers are paying. The average expense ratio on a money market fund is 0.58%, according to Morningstar. On an asset-weighted basis, the average money fund charges a more modest 0.47%. However, some money funds are charging more than 1% of assets. (See table below for a complete list).

**Morningstar** data, for example, shows that the \$3.6 billion Evergreen Money Market S (for sweep) fund charges 1.19%, more than double the industry average. The \$2.3 billion Evergreen Municipal Money Market S carries a 1.12% expense ratio.

But it's not just sweep accounts that are charging fund shareholders well beyond the average. TD Asset Management Money Market A levies a 1.04% expense ratio that includes a 12b-1 of 53 basis points, 25 basis points in shareholder service fees, 10 basis points for transfer agent fees and 8 basis points in "other" expenses. The remaining 8 basis

points represents the management fee.

The \$11.7 billion Federated Government Reserves charges 1%, as does its sibling Federated Capital Reserves. Each charges 55 basis points in 12b-1 fees. The Fidelity Prime Capital Reserves, which manages \$12.2 billion, charges 0.95%, which the company says is competitively priced and just one of many pricing options the fund company offers.

These firms and others contacted by *Ignites* justify the expenses by saying these funds are service-intensive due to a high number of transactions and the small size of the accounts. They also offer perks such as check-writing and frequent-flyer miles that drive up costs. Some firms say a portion of their money funds have too few assets to keep expenses low. Others say their funds offer unique trading advantages not found with conventional money funds, thereby justifying a higher fee.

Observers say these arguments don't hold water. "It's called a rip-off," says Andre Cappon, president of New York-based **CBM Group**, a management consulting firm specializing in financial services. "Money market funds should have a few basis points in expense, maybe five or 10 basis points, nothing more. It's a place to park idle money until it can be put to work."

Surprisingly, there are a number of money funds that give away a hefty amount of their yield in expenses, to the point where their fees exceed those of some actively managed mutual funds. In a low-interest-rate environment, this is particularly problematic.

"The massive flows to money markets now highlight the opportunity for several fund and brokerage complexes to rationalize money market sweep fund fees," says Lisa Cohen, president of sales consulting firm **Momentum Partners**. "Some of these fees are plainly disproportionate relative to the fees for other actively and passively managed fund products."

Currently, there are nearly 700 U.S. diversified equity funds with a minimum purchase of \$10,000 or less that have an expense ratio of 0.80% or lower, according to Morningstar.

Money market funds are similar to checking and savings accounts but typically pay higher interest rates and are not FDIC insured. Many of them are offered as part of a brokerage sweep program that automatically shifts excess cash from the brokerage account into the money market fund and back again when purchases are made. This ensures that the investor doesn't have idle cash sitting in the brokerage account and earning nothing.

But all of this comes at a price. Sweep vehicles cost more because they generally carry more fees at the fund and the account level. They are also corporate or retail cash management vehicles and naturally are service-intensive and more costly. And the transfer agent costs are high due to an above-average cost per account.

Still, those costs fail to justify the fees of some of the higher-priced money market funds, Momentum's Cohen says. "That's an awful lot of money. There's just not that much more administrative cost."

In a world where money market funds are ubiquitous, incentivizing brokers can mean the difference between a fund that rakes in profits and one that doesn't. "The broker is not going to recommend a fund unless there is something in it for them," says Connie Bugbee, managing editor of money fund tracker **iMoneyNet**.

Investing in cash strategies shouldn't require advice unless a broker is presciently transitioning clients out of certain asset classes before they tumble. "Cash is the simplest allocation you can make. As an advisor, where are you adding value?" asks Jeff Tjornehoj, senior analyst at **Lipper**.

Despite the lack of an ongoing advice component, many money market funds are charging distribution fees to help compensate brokers for selling the funds. In fact, there are 758 money market funds that charge a 12b-1 fee, according to Lipper. Many of them are B and C shares that utilize 12b-1 to finance the sales load. "It doesn't sit well with me," says Tjornehoj.

While firms need to seriously examine their pricing on cash management products, investors need to take a whiff of the smelling salts, analysts say. Many of them don't understand that they own money funds half the time, and even when they do, they are oblivious to the cost. "This underscores how ignorant investors are to the fees they pay on the simplest funds to own," Tjornehoj says.

| Fund                                    | Ticker | Net Total Expense Ratio | Share Class |
|---|--------|-------------------------|-------------|
| Dryden Money Market M                   | ABSXX  | 1.93                    | Other       |
| ProFunds Money Market Svc               | MPSXX  | 1.83                    | S           |
| Saratoga U.S. Government Money Mkt A    | SGAXX  | 1.65                    | A           |
| Van Kampen Tax-Free Money               | VTFXX  | 1.57                    | No Load     |
| U.S. Treasury Money Fund of America R2  | RUBXX  | 1.48                    | Other       |
| Fidelity Treasury Adv C                 | FDCXX  | 1.45                    | Adv         |
| Dryden Money Market L                   | AASXX  | 1.43                    | Other       |
| Rydex U.S. Government Money Mkt Adv     | RYDXX  | 1.43                    | Adv         |
| Dryden Money Market D                   |        | 1.43                    | D           |
| Saratoga U.S. Government Money Mkt I    | SGMXX  | 1.25                    | Inst        |
| Money Market Management Eagle           | MMMXX  | 1.22                    | Other       |
| Oppenheimer Cash Reserves N             | CSNXX  | 1.21                    | N           |
| Evergreen CA Municipal Money Market S   |        | 1.19                    | S           |
| Evergreen Money Market S                |        | 1.19                    | S           |
| Direxion U.S. Government MMkt Inv       | DXMXX  | 1.18                    | Inv         |
| Evergreen New Jersey Municipal MonMkt S |        | 1.17                    | S           |
| Vintage Liquid Assets S2                |        | 1.16                    | Other       |
| Evergreen NY Municipal Money Market S   |        | 1.16                    | S           |
| Huntington Tax-Free Money Market A      | HFTXX  | 1.15                    | A           |
| Touchstone Tax-Free Money Market S      | TTSXX  | 1.14                    | S           |
| Touchstone Money Market S               | TMSXX  | 1.14                    | S           |
| Evergreen Municipal Money Market S      |        | 1.12                    | S           |
| Evergreen PA Municipal Money Market S   |        | 1.12                    | S           |
| CitizensSelect Prime Money Market D     | CZDXX  | 1.10                    | D           |
| CitizensSelect Treasury Money Market D  | CEDXX  | 1.10                    | D           |
| Tax-Free Cash Reserve Rsv               |        | 1.09                    | Other       |
| ProFunds Money Market A                 |        | 1.08                    | A           |

|  |       |      |       |
|--|-------|------|-------|
| Hancock Horizon Treas Secs MMkt A          | HHAXX | 1.08 | A     |
| Huntington OH Muni Money Market Invmt      | HOBXX | 1.07 | A     |
| U.S. Treasury Money Fund of America R3     | RUCXX | 1.06 | Other |
| JPMorgan U.S. Govt MMkt Svc                | SJGXX | 1.05 | S     |
| Dryden Money Market A                      |       | 1.05 | A     |
| Federated Muni PA Muni Cash Cash           | PACXX | 1.05 | Other |
| Cash Trust Government Cash                 | CTGXX | 1.05 | Other |
| Cash Trust Municipal Cash                  | CMSXX | 1.05 | Other |
| Cash Trust Treasury Cash                   | CTTXX | 1.05 | Other |
| Huntington Money Market Invmt A            | HFIXX | 1.04 | A     |
| TDAM NY Municipal MMkt Inv                 | WNYXX | 1.04 | Inv   |
| JPMorgan Municipal Money Market Svc        | SJMXX | 1.04 | S     |
| JPMorgan Liquid Assets Money Market Svc    | OPSXX | 1.04 | S     |
| Fifth Third Prime Money Market Adv         | FPVXX | 1.04 | Adv   |
| Putnam Money Market T                      |       | 1.04 | T     |
| TDAM Money Market A                        | TDAXX | 1.04 | A     |
| Cash Management Trust America 529E         | CKEXX | 1.03 | Other |
| HighMark Diversified Money Mkt Ret S       | HDSXX | 1.03 | S     |
| HighMark U.S. Government MMkt Ret S        | HGSXX | 1.03 | S     |
| Evergreen Treasury Money Market S          |       | 1.03 | S     |
| Capital Assets Fund Money Market           | CAMXX | 1.03 | Other |
| CA Daily Tax-Free Income - Tax Exemp Liq   | CTEXX | 1.02 | Other |
| Cash Account Money Market Sv               | CSAXX | 1.02 | S     |
| Cash Account Government Securities Sv      | CAGXX | 1.02 | S     |
| PL Money Market 529 AZ A                   | AZAXX | 1.02 | A     |
| PL Money Market 529 MT A                   | CAPXX | 1.02 | A     |
| CNI Charter Government Money Market S      | CNFXX | 1.02 | S     |
| New York Daily Tax-Free Income Advantage   | CYEXX | 1.02 | Adv   |
| CNI Charter Prime Money Market S           | CNSXX | 1.01 | S     |
| Goldman Sachs ILA Money Market Cash Mgmt   | IMPXX | 1.01 | Other |
| Capital Assets Fund Government & Agency    | CAAXX | 1.01 | Other |
| Cortland General Money Market Pilgrim      |       | 1.00 | Other |
| Capital Assets Fund Tax Exempt             | CABXX | 1.00 | Other |
| Cash Account Trust Tax Exempt Service      | CHSXX | 1.00 | Other |
| Dreyfus Cash Management Plus Select        | DPSXX | 1.00 | Other |
| Dreyfus Treasury & Agency Cash Mgmt Select | DTSXX | 1.00 | Other |
| Goldman Sachs ILA Prime Oblig Cash Mgmt    | IPOXX | 1.00 | Other |
| Goldman Sachs ILA T/E Divrs Cash Mgmt      | IEDXX | 1.00 | Other |
| BlackRock Liquidity Instl MuniFund Selec   | BMBXX | 1.00 | Other |
| Goldman Sachs ILA Tax-Ex NY Cash Mgmt      | IENXX | 1.00 | Other |
| Goldman Sachs ILA Treas Instr Cash Mgmt    | ITPXX | 1.00 | Other |

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|--|-------|------|-------|
| Goldman Sachs ILA Treasury Oblg Cash Mgm | ITOXX | 1.00 | Other |
| Cash Account Tax-Exempt Captl            |       | 1.00 | Other |
| Cash Account Government Securities Captl |       | 1.00 | Other |
| Federated Government Reserves            | GRFXX | 1.00 | Other |
| Federated Muni VA Muni Cash Cash Series  | VCSXX | 1.00 | Other |
| JPMorgan Municipal MMkt E*Trade          | JMEXX | 1.00 | Other |
| JPMorgan CA Municipal MMkt E*Trade       | JCEXX | 1.00 | Other |
| JPMorgan NY Municipal MMkt E*Trade       | JNEXX | 1.00 | Other |
| Goldman Sachs ILA Tax-Ex CA CMS          | IECXX | 1.00 | Other |
| Federated Capital Reserves               | FRFXX | 1.00 | Other |
| Federated New York Muni Cash Trust Cash  | FNCXX | 1.00 | Other |
| Federated CA Municipal Cash Trust Cash   | CCSXX | 1.00 | Other |
| Federated FL Municipal Cash Trust Cash   | FLSXX | 1.00 | Other |
| Federated Muni NJ Muni Cash Trust Cash   | NJCXX | 1.00 | Other |
| Reserve NY Tax-Exempt                    | RTEXX | 1.00 | Other |
| Federated CT Muni Cash Tr Instl Svc      | FCTXX | 1.00 | Inst  |
| Federated Muni OH Muni Cash Cash II      | FOHXX | 1.00 | Other |
| Reserve CA Municipal Money-Market R      | RCTXX | 1.00 | Other |
| Reserve PA Municipal Money-Market R      | RPTXX | 1.00 | Other |
| Reserve MA Municipal Money-Market R      | RMEXX | 1.00 | Other |

Source: Morningstar