

**INVESTMENT COSTS AND RETURNS OF MUNICIPAL BOND FUNDS**

Richard Kjetsaa, Ph.D., CFP  
Maureen Kieff, M.A., M.B.A.

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**ABSTRACT**

The universe of economic agents cannot deliver an excess investment rate of return. The foremost cause of municipal bond fund underperformance is above-average expenses. After the deduction of investment management costs, investors collectively underperform market averages. Differences in expense ratios are a significantly influential factor in explaining municipal bond funds' relative returns. Expenses are a deadweight loss to investors. High expenses impede and impair the objective of creation of wealth and reinforce and amplify the disparity between gross returns and net returns. Investors should exercise caution before committing investment capital to high-cost municipal bond funds. Since investors are unlikely to foretell the best-performing municipal bond mutual funds, they should be alert to a signpost that increases the probability of identifying winners--funds that levy below-average financial intermediation expenses.

Keywords: *Mutual Funds, Municipal Bond Funds, Investment Expenses, Gross Returns, Net Returns*