



Consumer Affairs Tabloid



Keeping you in the “KNOW”

287- CITY



Army Community Service Financial Readiness Branch



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Excerpt from: Cooperative Extension System

Investing Unit 6: Mutual Fund Investing www.extension.org/pages/Investing_Unit_6:_Mutual_Fund_Investing

A **mutual fund** is a portfolio of stocks, bonds, or other securities that is collectively owned by hundreds or thousands of investors and managed by a professional investment company. The shareholders are people who have similar investment goals. Each fund has specific investment criteria, which are spelled out in its **prospectus**, the official booklet that describes the mutual fund. Investors then know what they are getting and can match their objective to that of a fund. The pooled money has more buying power than one investor alone, so that a fund can own hundreds of different securities. Thus, its success is not dependent on how just one or two companies perform.

A mutual fund makes money in several ways: by earning dividends or interest on the investments it owns and by selling securities that have appreciated in value. You, in turn, make money in the form of dividends and interest that are passed on to you and the increase (or decrease) in the fund's value. The mutual fund manager keeps constant watch on financial markets and adjusts the portfolio to achieve the strongest returns. By owning part of a fund, the hard work of selecting and monitoring stocks and bonds is done for you.

* Please click on the link to learn more about mutual funds to include advantages, disadvantages, index funds, cost, etc.



Excerpt from The Financial Industry Regulatory Authority (FINRA)

Mutual Funds www.finra.org/Investors/SmartInvesting/ChoosingInvestments/MutualFunds

Active vs. Passive Management

When a fund is actively managed, it employs a professional portfolio manager, or team of managers, to decide which underlying investments to choose for its portfolio. In fact, one reason you might choose a specific fund is to benefit from the expertise of its professional managers. A successful fund manager has the experience, the knowledge, and the time to seek and track investments—key attributes that you may lack.

The goal of an active fund manager is to beat the market—to get better returns by choosing investments he or she believes to be top-performing selections. While there is a range of ways to measure market performance, each fund is measured against the appropriate market index, or benchmark, based on its stated investment strategy and the types of investments it makes.

Passive funds seek to replicate the performance of their benchmarks instead of outperforming them. For instance, the manager of an index fund that tracks the performance of the S&P 500 typically buys a portfolio that includes all of the stocks in that index in the same proportions as they are represented in the index. If the S&P 500 were to drop a company from the list, the fund would sell it, and if the S&P 500 were to add a company, the fund would buy it. Because index funds don't need to retain active professional managers, and because their holdings aren't as frequently traded, they normally have lower operating costs than actively managed funds. However, the fees vary from index fund to index fund, which means the return on these funds varies as well.

**Excerpt from Investor Protection Trust & Kiplingers Personal Finance
Mutual Funds: Maybe all You'll Ever Need**
www.investorprotection.org/downloads/pdf/learn/Mutual_Funds_2008.pdf

Different Strokes for Different Folks

The following major groupings of funds offer more options than you'll probably ever use. You'll want to diversify with selections from several groups and your choice will depend on your risk tolerance and length of time you have until you'll need the money.

Funds for long-term investors.

This is by far the biggest category of funds that invest in stocks and bonds. Some are more volatile than others, but all should be considered long-term investments that you anticipate holding for a minimum of five years. These include growth funds, growth-and-income funds, balanced funds, index funds, flexible portfolio funds, global funds, international funds and socially screened funds.

Funds for income-oriented investors.

Funds designed primarily to generate income hold mostly bonds and fluctuate in price more because of interest-rate changes than stock-market movements. The following categories are suitable for the bond portion of your portfolio allocation but may not be appropriate for long-term growth. Volatility tends to be on the low side. These include high-quality corporate bonds, global bond funds, U.S. Government bond funds, Ginnie Mae funds and Municipal bond funds.

*Please click on the above link to learn more about the above type of funds, funds for aggressive investors, exchange traded funds, additional mutual fund information and what to look for in a mutual fund prospectus.



From the Files of Fort Hood's Consumer Affairs Office



Guest Contributor, Mr. Neil Vannoy, Certified Financial Planner

Mutual Fund Costs and Share Classes

Most of us are hard-wired to perceive high-cost items as being more valuable than lower-cost alternatives. While that might be true in some areas of life, when it comes to investing in mutual funds, selecting funds with low expenses is a great way to increase your chance of investing success. Numerous studies have shown that mutual funds with low expenses tend to outperform funds with high expenses over time.

The world of mutual fund investing can be broken down into two groups: no-load (no commission) funds and loaded (commission) funds. No-load funds charge an expense ratio that includes a management fee and 12b-1 fee, although many no-load funds don't charge 12b-1 fees. Loaded funds - classified as either A, B, or C shares - charge expense ratios and pay various types of commissions to the advisors that sell them.

Expense Ratio: Includes the management fee and any 12b-1 fee that is charged. All mutual funds will have an expense ratio.

Management Fee: Pays the fund manager and covers record keeping, accounting, auditing, and other expenses. All mutual funds will have a management fee.

12b-1 Fee: A sales charge that is paid to the selling agent to cover marketing of the fund. By law, no-load funds can't charge a 12b-1 fee over 0.25%, but loaded funds can accept 12b-1 fees.) All loaded funds will have 12b-1 fees, but many no-load funds will not have 12b-1 fees.

Loaded mutual funds (funds that charge commissions) will be classified as A, B or C shares.

Class A Shares: Charge an up front commission, deducted from your initial investment, that usually starts around 5.75%. Discounts, or "breakpoints", are available under certain circumstances. A shares can be "load waived" as well, meaning the front end load is waived, but 12b-1 fees still apply.

Class B Shares: Charge a back-end commission starting around 5% that declines over 5 to 10 years until eliminated. B shares charge a high 12b-1 fee to compensate for the commission paid to the selling agent.

Class C Shares: Usually charge a 1% back-end load if sold within the first year. C shares charge a 12b-1 fee of 1.00% that goes to the selling agent. Don't let an advisor tell you that a Class C share is a "no-load fund"! It isn't!

* Please read the Consumer Affairs Tabloid dated Oct 09 on selecting a Financial Advisor. Back issues are available on the Financial Readiness section of the ACS website at www.hoodmwr.com/acs/frb.html.