

Investing In Mutual Funds

Over the past decade, mutual funds--which are invested in everything from stocks and bonds to commodities and money market securities--have attracted millions of investors seeking both income and capital appreciation. According to a recent study, investments in mutual funds have tripled since 1990. Today, more than 88 percent of investors own shares in mutual funds. Nearly half of all investors own all their stocks through mutual fund shares and do not own any stocks in individual firms.

A mutual fund is simply a pool of money invested for you by an investment firm in a variety of instruments like stocks, bonds, or government securities. Each mutual fund is different in its make-up and philosophy. As an investor, you should look for funds with objectives and risk levels that match yours. If you're interested in a diversified mutual fund covering a single class of investments, there are many broad-based funds that invest in a wide variety of stocks. If you prefer to stick with single industries, you might consider sector funds such as real estate investment trusts (REITs), technology, and telecommunication funds, among others. Mutual funds are also a good way to invest in foreign stocks. Some funds own hundreds of different securities, while others may own only a few dozen.

The two most common types of mutual funds are equity funds that invest primarily in common stocks and fixed-income funds or "bond funds" that typically invest in bonds or money market securities. Less common are "balanced funds" invested in both equity and debt.

Mutual Fund Quotations <i>(Wall Street Journal)</i>			
1	2	3	4
Fidelity Investments	NAV	Net Chg.	YTD % Ret.
MAGLN	83.35	-0.21	+5.8
OVRSE	32.15	+0.03	+4.2
Vanguard Group			
SELVALU	11.07	-0.03	+1.5
STAR	16.67	-0.03	+5.1

Readers of Wall Street Journal stock tables will sometimes find one-letter "codes" by certain funds. To interpret these codes, look for the "explanatory notes."

This worksheet reprinted with permission and courtesy of Eastern Michigan University, National Institute for Consumer Education. The information is for general educational purposes and is not intended as specific advice for individuals.

What It Says

Column 1

Fund Family

Magellan and Overseas are names of mutual funds within the Fidelity Investment family. Fund Family Select Value and STAR are mutual funds within the Vanguard Group of funds.

Column 2

NAV

The NAV stands for the net asset value per share of the fund at the close of the previous NAV business day. A fund's NAV is calculated by adding up the value of all stocks or other securities owned by the fund, subtracting the liabilities, and then dividing by the number of fund shares available. However, sales commissions are not subtracted from the NAV

Column 3

Net Change

The net change column shows the change in the NAV from the preceding day's quote. In Net Change this example, there was a 21 cent loss in net asset value of the Fidelity Magellan Mutual Fund as compared to the previous day. Both of the listed Vanguard funds lost three cents a share.

Column 4

YTD% Return

YTD % return refers to the year-to-date percentage change in the value of the fund. That YTD% Return includes re-investment of all distributions, subtracting annual expenses charged to investors.

Most mutual funds require a minimum initial investment, sometimes as low as \$250. Mutual fund shares trade like stocks, rising and falling in price depending on investor interest and the performance of stocks in the fund. The Net Asset Value (NAV) of a mutual fund indicates its value or price per share. Like stocks, mutual funds are liquid, meaning they can be bought and sold easily.

Before investing in a mutual fund, find out if it's a load or no-load mutual fund. Load funds charge a sales commission; no-load funds don't. When you pay a sales commission going in, that's called a front-end load. A commission paid when you sell is known as a back-end load. The advantage to a load fund is that there is usually staff available to explain the fund to you and advise you as to the appropriate time to buy more shares, or sell. If you're a new investor, it might be worth paying the commission for the extra guidance. With some no-load funds, a staff person merely takes your order to buy or sell, or can only offer limited support--you are fully responsible for understanding the investment.

Many mutual fund rates don't account for shareholder tax liability. Your actual return after-taxes might wind up much lower than the pre-tax one cited in the magazine or newspaper article rating the mutual funds. Remember, funds with high pre-tax returns don't necessarily offer the best after-tax returns. Not all funds create the same taxes for the investor. Smart investors look for the best total return.

A mutual fund that frequently trades its holdings pays more taxes than a fund that holds its investments long term. Unless you are invested in an Individual Retirement Account (IRA) or other tax-exempt account, you have to pay taxes whenever your fund sells a stock and profits. The more profitable the trades, the more taxes paid. Some fund managers count on attractive short-term returns to attract new investors. If your mutual fund investment is for your retirement, then tax liability may not be important for you now.

Index funds are mutual funds that are more conservative in their approach; they try to match their performance to the performance of the stock or bond markets as a whole. By purchasing the same securities held in an index such as Standard and Poor's 500 or the Russell 2000, these funds match the return on the markets they index.