MONEY 2000
PERSONAL TRAINING FOR FINANCIAL FITNESS
MICHIGAN STATE UNIVERSITY EXTENSION

Mutual Funds and Other Investment Options

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IS your basic financial house in order? Do you have savings to cover short-term goals and emergencies? Have you established some mid-and long-term financial goals? Do you understand the basic concepts that make investing a powerful financial tool? If you can answer "yes" to these questions, it's time to start thinking about investment options! This bulletin is designed to help you understand the general characteristics of selected investment categories and how they might fit into your investment plan. It is not designed to help you evaluate and select a specific investment. Particular emphasis is given to a discussion of mutual funds since they are an especially good choice for new investors.

Ownership and loanership investments

Most investments fall into one of two broad categories. There are ownership options...and there are loanership options! Both include a wide range of products investors can choose from.

Ownership (or equity) investments

With "ownership" assets, investors own all or part of a company through the purchase of investments such as stocks, stock mutual funds, and real estate. When the value of an investment goes up, you share that increase with other owners; when it goes down, you share the loss. Earnings, if any, are also shared with the owners. The downside of ownership assets is risk. Your principal and a specific rate of return are not guaranteed as they are for loanership assets held to maturity.

Loanership (or fixed-income) investments

When you select a loanership investment option, you are loaning money to the government or a corporation. In return, the borrower — the government or a corporation — promises to pay you a certain amount of interest at regular intervals. This is why loanership investments are often called fixed-income choices. Examples of loanership investments include: certificates of deposit, savings bonds, government and corporate bonds, treasury bills, etc. (See chart on page 2.)

Mutual Funds

A mutual fund is a portfolio of stocks, bonds, or other securities that is collectively owned by hundreds or thousands of people and managed by a professional investment company. Each fund has specific investment goals and management policies that are outlined in the fund's prospectus or marketing booklet. The pooled money has a lot of buying power so that the fund can own many — sometimes hundreds — of securities. This diversification means that the success of the fund does not depend on the performance of one or two holdings, but rather on that of many.

Investors purchase shares of a mutual fund and thus indirectly own a portion of the investments in the fund's portfolio. The price of a fund's share — called the net asset value or NAV — goes up and down daily as the fund's holdings change in value. Shareholders share in the fund's income, expenses, profits, and losses.

Mutual funds make money in two ways — from dividends and interest paid on the investments in the fund, and from the sale of investments in the fund that are sold for profit (or capital gain). The fund's earnings — a combination of the dividends, interest, and capital gains — minus the fund operating expenses, are passed to shareholders in the form of distributions. Investors can make additional money if they redeem mutual fund shares for more than their purchase price. Gains from any of these sources, however, are taxable to shareholders.

As with all investments, mutual funds involve risk. When mutual fund shares are redeemed for less than the purchase price, the investor loses money.

Ownership Investment Options *(Equity Investments)*	Loanership Investment Options *(Fixed-Income Investments)*
• Stock • Stock Mutual Funds • Real Estate *(Investor buys part or all of a company through purchase of shares.)*	• Government and Corporate Bonds • Savings Bonds • Certificates of Deposit • Treasury Bills *(Investor loans money to government or corporation for predetermined amount of interest.)*

The pros and cons of investing in mutual funds

Unless you have a lot of money and ample time to devote to researching and investing in individual securities, mutual funds are good choices for many investors. Here's why.

The Pros:

• ***Professional Management***
The hard work of selecting and monitoring securities is done for you by professional money managers.

• ***Affordability***
It's easy to make small initial and ongoing investments. Some funds require $1,000 to open an account, but starting investments can be as low as $250 to $500. A few funds offer automatic investment plans for $25 a month. Most offer optional automatic reinvestment of distributions that encourages saving.

• ***Ease and cost of acquisitions and redemptions***
Shares of mutual funds are easy to buy and redeem and you can get your money fairly quickly if needed. Sale and redemption costs are often lower than for individual securities because mutual funds buy and sell in large quantities. No-load funds, defined as those sold without sales commissions, and those with low operating expenses, can offer additional savings.

• ***Reduced risk through diversification***
Holding a wide variety of securities reduces exposure to the risks of individual securities.

Possible drawbacks:

• ***No guarantees:***
The investment principal and earnings are not insured or guaranteed.

• ***Lack of control over taxes***
Fund distributions are taxable annually unless the fund is part of a tax-advantaged retirement plan, an IRA, etc.

• ***Management and transaction fees or loads***
Fees for buying and selling shares (usually referred to as commissions or loads, and/or marketing and distribution fees), may be high in some instances.

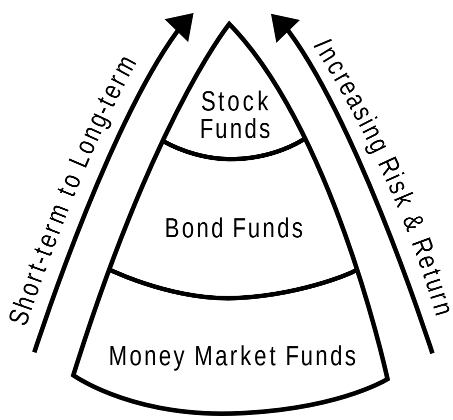
Mutual Fund Objectives and Categories

All mutual funds are established to achieve one of the following investment objectives: growth, income, growth and income, and preservation of capital. Generally speaking, the funds fall into one of three main categories.

Stock funds, sometimes called equity funds, purchase shares of stock in U.S. and foreign companies. They usually focus on growth and accumulation of capital over the long term. A stock fund's value can rise and fall quickly over the short term and generally involves more risks than money market or bond funds. However, when held for 10 years or more, stock funds have historically offered the highest returns.

Bond funds, also known as fixed-income funds, invest in a variety of bonds. Bonds and bond funds are available in many different types and can vary dramatically in their risks and rewards. Investors generally look to bond funds to add diversity to their portfolio, to provide a source of income and/or a way to meet intermediate-term goals. Historically, bond funds have provided returns that are higher than those for cash equivalents (e.g., money market funds) and several points higher than the rate of inflation, but lower than stock returns.

Money market funds invest primarily in short-term securities issued by the U.S. government and its agencies, U.S. corporations, and state and local governments. Money market funds are most appropriate for short-term investment and savings goals where your aim is preservation of capital and easy access to cash while still earning some income. Historically, returns have barely outpaced inflation. However, losses have been rare.



Mutual Fund Objectives
▲ Aggressive growth of capital
▲ Growth of capital
▲ Growth of capital and income
▲ Current income
▲ Preservation of capital

Mutual Fund Categories
● Stock (equity) funds
● Bond (fixed-income) funds
● Cash management (money market) funds

How to approach the purchase of a mutual fund

Identify the types of funds you need to reach your goals

Do you want to preserve your capital? Produce income? Or focus on long-term growth? Or a combination of these? To answer these questions you'll need to consider your age, when the money is needed, your risk tolerance and your other investments. Once you've determined the type of fund you need, it's time to start working through the following steps.

Read and research about funds

Consult books or mutual fund rating services in your library to compare at least three mutual funds for each type of performance, risk, and cost that you have identified. Rating services such as Morningstar Stock Investor or Value Line Investment Survey provide current data on nearly 1,700 mutual funds. Their one-page reports on each fund make it easy to review and compare the funds you are considering. Check the ...

✓ ***Investment objective***
Check to see that the fund's objectives match your personal goals.

✓ ***Performance***
Check the fund's total annual return for the past 10 years, but recognize that past performance is not a reliable indicator of the future. Volatility (changeability) of past returns, however, is a good indicator of future volatility.

✓ ***Expense ratio***
Also check costs and fees. Load and no-load options exist in every major fund category. (Load funds

(Continued on page 4.)

(*Continued from page 3.*)

are those that require the buyer to pay a commission fee to acquire shares.) Both load and no-load funds charge annual money management and administrative fees that are deducted from the fund's return. Fees for the most efficiently run funds cost less than one percent a year.

Acquire the prospectuses and compare fund features

On the basis of your library research, contact the company or a broker and ask for a prospectus for each of the funds you are considering seriously. Prospectuses are available by phone, over the Internet, or from a broker. They will give you a full description of the fund's operating, financial, and management procedures. Additional information can be found in a fund's annual report.

Make your purchase

Mutual funds can be acquired in several ways. Most mutual fund groups provide a toll-free number for telephone assistance. Brokers, financial planners, insurance agents, and banks handle many purchases involving a sales commission. Some buyers choose to purchase mutual fund shares from brokerage houses via the Internet.

Monitor your fund's progress

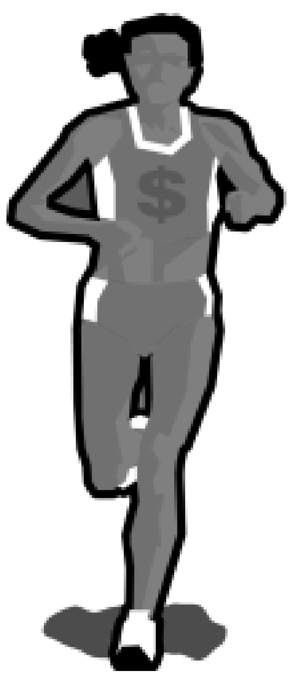
Like it or not, involvement with your mutual funds portfolio needs to be an on-going process. At a minimum, take time once each year to carefully review the progress of the investments in your portfolio and make adjustments that will insure that your money is in the best place to help you achieve your financial goals.

Resources on the Internet

www.ici.org
(Investment Company Institute). Provides educational and reference materials for individuals seeking information about mutual funds.

www.sec.gov
(U.S. Securities & Exchange Commission).
Provides investor assistance and help with complaints.

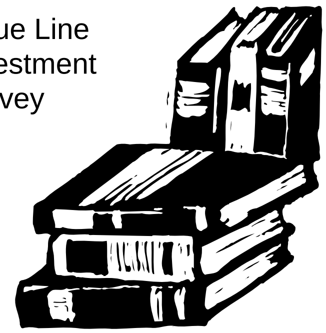
www.investing.rutgers/edu
(Source of *Investing For Your Future)*, An 11-unit Cooperative Extension home study course for new investors.



For further information, please contact your Michigan State University county Extension office found under local government in your telephone book, or on the Internet at: **http://www.msue.msu.edu**.

Mutual fund references in your library

- Morningstar Stock Investor
- Value Line Investment Survey



Quotes:

"If someone offers you something for nothing, take as little as possible."