UNDERSTANDING MUTUAL FUNDS

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INVESTING IS A SERIOUS BUSINESS WITH NO QUICK ANSWERS. SINCE NO ONE WANTS TO LOSE MONEY, IT'S VERY IMPORTANT TO ACQUIRE ANSWERS AND AN UNDERSTANDING.

Those wanting to invest in mutual funds should sort through choices, understand investments' benefits and risks, and decide which are right, and then monitor performances. Additionally, mutual funds are not guaranteed or insured by the FDIC or any other government agency and one can lose money when investing. A past high return does not indicate one for a future performance, but it can help assess a fund's volatility over time. All mutual funds have costs to lower investment returns.

Yet, what is a mutual fund?

A mutual fund is a company devoting money from many investors into stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holdings the mutual fund owns are known as its portfolio. Each share represents an investor's proportionate ownership of the fund's assets and the produced income.

No one can predict the best time to invest. Investors staying out of the market fearing a downturn have lost more money than those investing. Solid companies earning money and paying dividends have always proved to be wise investments over the long term. Most financial professionals agree the best time to invest is when having money.

Those investing for the first time are concerned with the high market, dollar cost average, and where to put the money. They may depend on the media's general guidelines that have proven success over time to provide them personal financial advice in short minutes. However, investors must realize individuals giving financial advise on a radio or television show has immediate answers.

The financial advisors may say the money market can continue increasing and make mutual fund shares more expensive later when not high. But, would it be more sensible to dollar cost average, investing money in installments? That is a personal decision. Dollar cost averaging may be appropriate if it makes the investor comfortable. The person could avoid a commission with each installment and obtain the discount usually allowed for lump sum deposits by signing a letter of intent with the mutual fund. Additionally, dollar averaging may not be necessary, because the systematic form of investing serves two purposes: (1) It makes investors feel more secure to dribble money into the market, and (2) It allows people with small amounts of money to invest.

Should the money be put into one fund or spread among others? Some may say put all of the money in one fund. A wise solution is to choose a fund meeting financial objective and risk parameters instead of one that is "liked" before considering investing. However, others may advise investing among a couple of "liked" funds if it makes investors feel more at ease. This is chancy and unfortunately, too many investors "like" the funds showing the largest gains in recent months. These funds usually carry more risks. Mutual funds, over the long term with a consistent growth pattern, often exceed riskier funds with erratic performance. Allocating money among several funds minimizes further risks.

Some of the traditional, distinguishing characteristics of mutual funds include the following:

- Investors purchase mutual fund shares from the fund (or through a broker for the fund) instead of other investors on a secondary market, such as the New York Stock Exchange or Nasdaq Stock Market.
- Investors pay the fund per share net asset value (NAV) plus any shareholder fees it imposes at the time of purchase (such as sales loads).
- Mutual fund shares are "redeemable," and investors are able to resell them to the fund (or to a broker acting for the fund).
- The mutual funds generally create and sell new shares to accommodate new investors. In other words, they sell their shares on a continuous basis, although some funds stop selling when, for example, they become too large.
- Separate entities known as "investment advisers" are registered with the SEC and typically manage mutual funds investment portfolios.

Still, every investment has advantages and disadvantages. However, it's important to remember features significant to one investor may be unimportant to another. Whether any particular feature is an advantage for a person depends on unique circumstances.

For some investors, mutual funds provide an attractive investment choice, because they generally offer the following features:

- Professional Management — Professional money managers research, select, and monitor the performance of the securities the fund purchases.
- Diversification — Diversification is an investing strategy that can be neatly summed up as "Don't risk everything on one endeavor." Spreading investments across a wide range of companies and industry sectors helps lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.
- Affordability — Some mutual funds accommodate investors who don't have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.
- Liquidity — Mutual fund investors can readily redeem their shares at the current NAV and any time the fees and charges are assessed on redemption.

However, mutual funds also have features some investors might view as disadvantages, such as:

- Costs Despite Negative Returns — Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. In addition, depending on the timing of their investment, investors may have to pay taxes on any received capital gains distribution, even with poorly performance after buying shares.
- Lack of Control — Investors cannot determine the structure of a fund's portfolio, directly influence, which securities the fund manager buys and sells, or the timing of the trades.
- Price Uncertainty — Real-time can be obtained with an individual stock (or close to real-time) pricing information with relative ease by checking financial websites or calling the broker. A stock's price changes can be monitored hourly or by seconds. In contrast, the price at which shares are purchased or redeemed normally depend on the fund's NAV, which might not calculate until many hours after a placed order. Overall, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

These are general principles. There are many ways to invest and individual investors. Talk to a competent professional for specific guidance. The person will take time to understand a situation and goals.