MUTUAL FUNDS

A mutual fund pools the money of many investors for the purchase of stocks or bonds and other securities. Each fund — which typically may hold 50 to 200 or more stocks, bonds, cash or other investments — is professionally managed to achieve specific objectives at a chosen level of risk.

Diversification

ADVANTAGES

You can invest in a variety of industries and categories of stocks, bonds, cash and other securities reducing investment risk. With a broad investment base, total returns are not as threatened by a few unsatisfactory performers.

DISADVANTAGES

Because mutual funds have holdings in many companies, high returns from several investments may not make much difference in your overall return.

Flexibility

ADVANTAGES

Mutual funds come in a variety of different investment approaches and objectives. You can reallocate money among different funds as your goals and objectives change.

DISADVANTAGES

Movement of your monies between mutual funds may result in a taxable gain for federal or state income tax purposes or a loss of principal. Losses may be deductible for federal or state income tax purposes.

Liquidity

ADVANTAGES

You can generally redeem or sell your shares at any time at their current net asset value.

DISADVANTAGES

When you sell your shares, you may have a gain that is taxable for federal or state income tax purposes or a loss of principal. Losses may be deductible for federal or state income tax purposes.

Professional Management

ADVANTAGES

Mutual funds are managed by professionals who decide which securities to buy and sell within the fund and when to do so. It would be difficult for an individual investor to have access to the level of resources used to make these decisions.

DISADVANTAGES

The investor cannot directly select the underlying fund investments and generally cannot control the amount of capital gains triggered by the fund. Mutual funds are not always tax efficient.

Regulation

ADVANTAGES

The industry is regulated by the Securities and Exchange Commission (SEC and the Financial Industry Regulatory Authority (FINRA. Both impose requirements designed to protect investors from abuse.

DISADVANTAGES

Complying with regulations can add to the expense associated with running the fund. These expenses are often passed on to investors.

Convenience

ADVANTAGES

Most funds allow you to invest automatically with an allotment or automatic withdrawal from your bank account (also known as dollar cost averaging). By making fixed, regular investments into a mutual fund, regardless of share price, you may lessen your risk of putting a large amount of money in a single investment at the wrong time. Generally, you can buy or sell shares by phone, mail or online.

DISADVANTAGES

Such automatic allotment or withdrawal plans do not assure a profit and do not protect against losses in declining markets.

SELECTING A MUTUAL FUND

Carefully read each fund's prospectus — a legally required description of the fund's activities, objectives, holdings, managers, performance and fees. Make sure you understand the following:

Fund objectives

Be sure the fund's investment objective (such as income, growth, or balanced matches your long-term goals and risk tolerance and fits your overall portfolio.

Fund performance

Though past performance is no guarantee of future results, consider a fund's performance (historic rate of return over three, five, and ten years. A consistent long-term performance delivered by a consistent manager or management team may be a better choice than today's front-runner.

Fund reputation

Research how long the mutual fund has been in existence, how long the manager (or team has run the fund, and how the fund ranks among funds with similar objectives.

Fund expenses

Check the fund's fees and expenses that are charged to operate the fund. All things being equal, lower expenses are better than higher expenses.

MUTUAL FUND EXPENSES

Types of funds:

LOAD MUTUAL FUNDS

Carry a sales charge — a commission — that is paid to the investment firm selling the fund. Only a portion of the investor's principal contribution is invested.

NO-LOAD MUTUAL FUNDS

Do not carry a sales charge and are normally sold directly from the investment company managing the fund. All of the investor's principal contribution is invested.

Operating expenses:

Operating expenses reduce the fund's overall return. They are not taken from the principal investment but are deducted from mutual fund assets before earnings are distributed to shareholders.

MANAGEMENT FEES

Paid to the fund's adviser for managing the fund.

12B-1 FEES

Pay marketing and distribution expenses.

OTHER EXPENSES

Paid to transfer agents, custodians, accountants, attorneys and others who provide services to the fund.

MilSpouse Money Mission

EDUCATE • EMPOWER • ELEVATE