Mutual Funds and ETFs: Maybe All You'll Ever Need

By the Editors of
Kiplinger's Personal Finance

Mutual funds help multiply your savings for goals such as retirement or buying a home

To reach your financial goals, there's no better choice than mutual funds, the top investment for most Americans. Mutual funds give us cheap and easy access to stocks and bonds (and other types of assets, such as gold) to increase our wealth. Over time, mutual funds can help us multiply our savings for such goals as retirement, buying a house or paying for college tuition much faster than if we kept our money in a bank account.

One way to start investing in mutual funds is with the booklet *Mutual Funds and ETFs: Maybe All You'll Ever Need*. Here's a sample of the information in the booklet:

Mutual funds combine the money of many investors. Most funds have many thousands of investors, and this adds up to hundreds of millions, or even billions, of dollars to invest.

Owning many securities reduces the risk of just owning a few securities. A fund can invest in dozens or even hundreds of securities. Most investors wouldn't be able to afford the cost of buying so many securities on their own.

Low Cost to Start. Some funds accept as little as $250 to open an account.

When you buy mutual funds, you're also buying the skills of the people who manage those funds. Choosing among the thousands of stocks and bonds available is a task that most people don't have the time, the interest or, frankly, the skill to do.

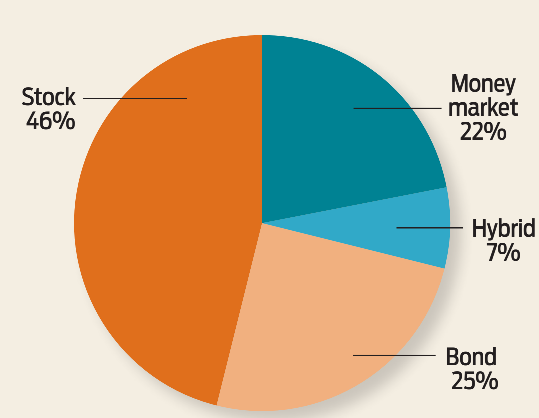
The Different Types of Funds

Before we discuss all the different things funds invest in, let's look at the three main forms mutual funds come in.

Index Funds. These are relatively simple funds that aim to track indexes, or broad baskets, of different securities. They are not actively managed by experts trying to beat the market; instead, their goal is to match the market.

WHERE THE MONEY IS IN FUNDS

This chart shows four fund categories and each category's share of total mutual fund assets in mid-2013.



SOURCE: Investment Company Institute

Actively Managed Funds. These funds employ professionals who choose from among thousands of securities in an attempt to deliver the best possible results.

Exchange-Traded Funds. Exchange-traded funds are a cross between index funds and stocks. Like index funds, ETFs hold baskets of securities that follow indexes. ETFs trade just like stocks, throughout the trading day. Because you can buy as little as a single share of an ETF, the minimum investment for owning an ETF is typically far less than for owning a mutual fund.

Now let's look at funds by what types of securities they invest in:

- Money-Market Funds. Money-market funds have very low risk and are commonly used by investors to keep cash on hand and earn some interest.
- Stock Funds. This is the most popular type of mutual fund, measured by the number of funds and the amount of money invested in them. Stock funds usually invest in one type of stock, such as large-company U.S. stocks, small-company U.S. stocks or foreign-company stocks.
- Bond Funds. The main securities that bond funds invest in are U.S. government bonds,

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STATE SECURITIES REGULATORS

State Securities Regulators have protected investors from fraud for more than 100 years. Securities markets are global, but securities are sold locally by professionals who are licensed in every state where they conduct business. State Securities Regulators work within your state government to protect investors and help maintain the integrity of the securities industry.

Your State Securities Regulator can:

- Verify that a broker-dealer or investment adviser is properly licensed;
- Provide information about prior run-ins with regulators that led to disciplinary or enforcement actions; serious complaints that may have been lodged against them; their educational background and previous work history;
- Provide a Web site, telephone number or address where you can file a complaint; and
- Provide noncommercial investor education and protection materials.

For contact information for your State Securities Regulator, visit the North American Securities Administrators Association (NASAA) Web site at www.nasaa.org and click on "Contact Your Regulator."

HOW TO ORDER INFORMATION

Get more resources and tools

A variety of noncommercial investor education and protection materials, including booklets, videos and curricula, are available and can be downloaded for educational purposes at **www.investorprotection.org**.

About the Investor Protection Trust

The Investor Protection Trust (IPT) is a nonprofit organization devoted to investor education. More than half of all Americans are now invested in the securities markets, making investor education and protection vitally important. Since 1993 the Investor Protection Trust has worked with the States and at the national level to provide the independent, objective investor education needed by all Americans to make informed investment decisions. For additional information, visit www.investorprotection.org.

About the Investor Protection Institute

The Investor Protection Institute (IPI) is an independent nonprofit organization that advances investor protection by conducting and supporting unbiased research and groundbreaking education programs. IPI carries out its mission through investor education, protection and research programs delivered at the national and grassroots level in collaboration with state securities regulators and other strategic partners. IPI is dedicated to providing innovative investor protection programs that will make a meaningful difference in the financial lives of Americans in all walks of life and at all levels of sophistication about financial matters. For additional information, visit www.iInvest.org.

How to use mutual funds to reach all your goals, whether they are long or short term.

Mutual Funds and ETFs: Maybe All You'll Ever Need

Many investment vehicles help you build your nest egg.

corporate bonds, and municipal bonds, which are exempt from federal income taxes. Another popular category is high-yield corporate bonds. These are issued by companies with low credit ratings, but with the higher risk of default comes the poential for higher yields.

How to Choose Funds

You can use many strategies when choosing funds. To start, funds charge various fees and annual expenses, and you should always try to minimize these. The more you pay in fees, the less that's left for you. You should also study past performance, but don't go overboard.

Look for funds with good long-term records of at least five years, though a record of at least ten years is best.

You should also check fund management. when it comes to actively managed funds, because a fund's record is only as good as the manager who compiled it. Since managers come and go, check to see how long the manager of a fund you're considering has been at the helm.

Assembling a Portfolio

The most important decision you'll make as an investor isn't which fund to buy. More important is how you split money among different types of assets—mainly between stock funds and bond funds. This asset selection will have the most effect on the two things you want to control most in your portfolio: the potential return and the level of volatility. A smart, well-diversified portfolio gets you both a good return and low volatility. It's the financial equivalent of having your cake and eating it, too.

So how do you assemble a portfolio that will reduce risk and meet your goals? Well, you can do it yourself, or you can choose a fund that is preassembled with many different types of funds.

The most common of these diversified funds are target-date retirement funds.

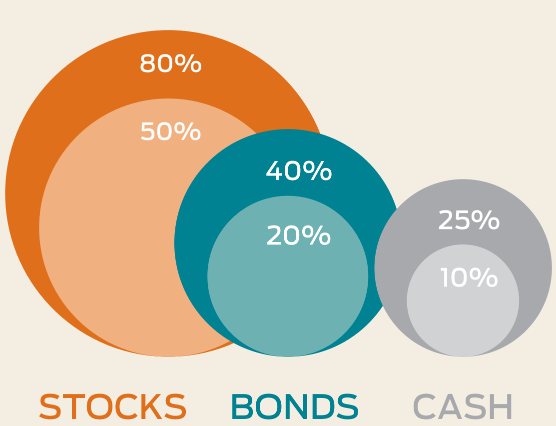
Sources of Fund Information

As a practical matter, how do you start your search for funds? Many personal finance and business magazines and newspapers publish mutual fund data on an annual basis, and most have fund-screening tools at their Web sites that let you select funds based on performance, costs, style, assets, size and many other factors. Among the popular periodicals covering funds on a regular basis are *Bloomberg BusinessWeek, Forbes, Kiplinger's Personal Finance, Money* and the *Wall Street Journal.*

So that's the long and short of mutual funds. These first steps can lead to a lifetime of building wealth using mutual funds to reach your financial goals.

More information. To read the full-length *Mutual Fund and ETFs: Maybe All You'll Ever Need* booklet, visit www.investorprotection.org or contact your State Securities Regulator's office.

HOW TO DIVERSIFY



Think in terms of ranges rather than fixed percentages when deciding how to divvy up your investments. A diverse portfolio allows you to manage risk and adjust according to the market and your time horizon.

THE TRADITIONAL RISK PYRAMID

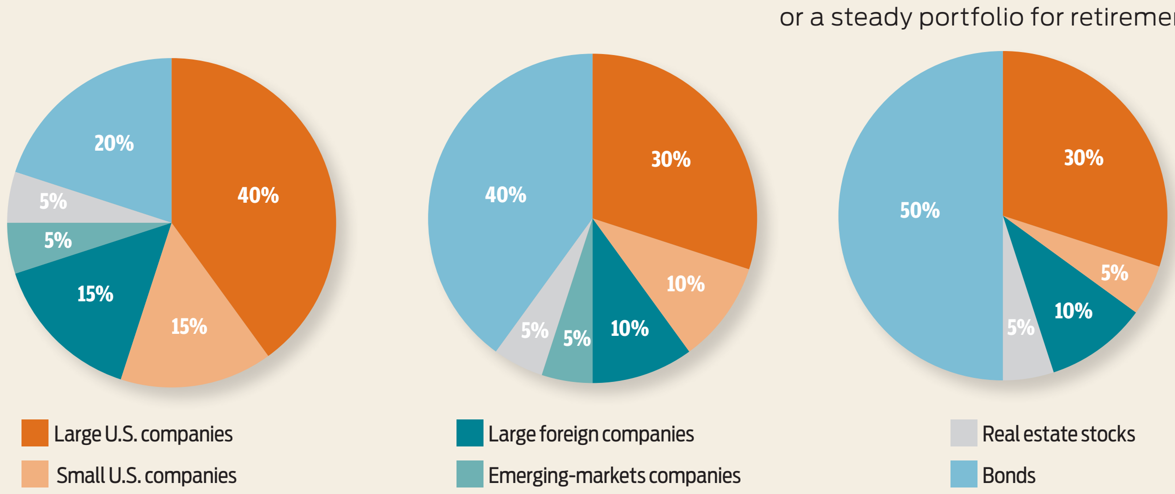
The higher up the pyramid, the higher your potential reward and the greater your risk of loss—and the smaller the proportion of your investments.

SAMPLE PORTFOLIOS FOR REACHING YOUR GOALS

LONG-TERM PORTFOLIO
For a goal 15 years away or more

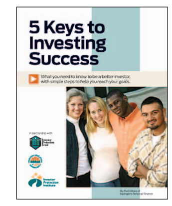
MID-TERM PORTFOLIO
For a goal 5-15 years away

SHORT-TERM PORTFOLIO
For a goal fewer than 5 years away, or a steady portfolio for retirement.

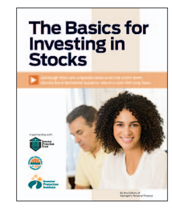


MORE INFORMATION ABOUT INVESTING

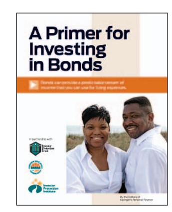
The following booklets from the Editors of *Kiplinger's Personal Finance* magazine and the Investor Protection Trust are available at your library and offices of State Securities Regulators.



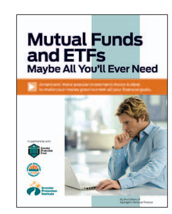
Five Keys to Investing Success
Make investing a habit
Set exciting goals
Don't take unnecessary risks
Keep time on your side
Diversify



The Basics for Investing in Stocks
Different flavors of stocks
The importance of diversification
How to pick and purchase stocks
When to sell
Key measures of value and finding growth
What's your return?
Consider mutual funds



A Primer for Investing in Bonds
How do bonds work, anyway?
How much does a bond really pay?
How to reduce the risks in bonds
Going the mutual fund route



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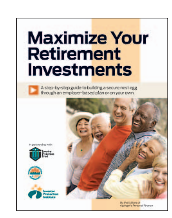
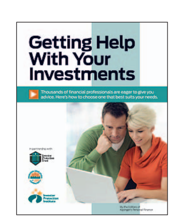
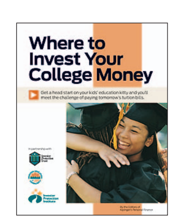
Mutual funds: The best investment
The different types of funds
How to choose funds
Assembling a portfolio
Sources of mutual fund information
Where to buy funds



Maximize Your Retirement Investments
Three key rules
Creating the right investment mix
Investing on target
Best places to save
Guidelines for saving at every life stage
Getting the money out and creating an income stream
Protect your money: Check out a broker or adviser



Getting Help With Your Investments
Do you need a financial adviser?
Who's who among financial advisers
How to choose an adviser
How to open an account
5 questions to ask before you hire an adviser
What can go wrong
How to complain



Where to Invest Your College Money
The basics of investing for college
Investing in a 529 savings plan
Locking in tuition with a prepaid plan
Other tax-favored ways to save
Tax credits for higher education
Save in your child's name?

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