WISER®

Saving
Investments
Insurance
Social Security

Improving the long term financial security of all women through education and advocacy.

Mutual Funds – The Basics

Mutual funds are investments that pool together the money of thousands of small investors and invest this money in stocks, bonds and/or other securities. Instead of purchasing a particular stock, you purchase shares in a whole group of stocks.

A **Fund Manager** decides where to invest the money based on the goal of the fund. Basically, there are three goals: to provide you with income while your money is invested – called **"Income Funds;"** to make money when you sell your shares – called **"Growth Funds;"** and a combination of the two – called **"Growth and Income"** or **"Balanced"** or **"Blended" Funds**.

Many people invest in mutual funds through their employer's retirement plans (401(k), 403(b) plans, etc.) Employers will usually offer a given set of mutual funds to choose from. Investing in an IRA is another common way to invest in mutual funds.

The Upside of Mutual Funds

- They offer small investors access to the advantages of diversification, investing in hundreds or thousands of different companies.
- Because mutual funds are generally diversified, spreading the risk with different companies and different securities, you do not have to monitor specific stocks or other investments.
- Individual stocks and bonds are risky; their value is subject to volatile investor perceptions. When you choose single stocks, you are betting on individual companies.
- Stock and bond mutual funds are not guaranteed – you can still lose money – but diversification minimizes some of the risk.
- Growth is proportionate. That is, as the fund is successful, so is your account.

The Downside of Mutual Funds

- There are hundreds of mutual funds available. You need to select wisely to avoid risking all or part of your investment and to avoid excessive fees.

What Do I Need to Know About Mutual Fund Fees?

All mutual funds charge you some fees to cover on-going expenses, but the amount of the fees varies among funds. These expenses will cut into the amount of money that you make from the fund.

- Some mutual funds charge a commission called a "load." These funds charge a fee each time you buy or sell shares in the fund. "No load" funds are your best bet.
- Despite what anyone might tell you, funds with lower expenses generally perform just as well as funds with higher ones. Stick with low-expense funds. Read WISER's fact sheet, Mutual Fund Fees & Expenses, to learn more about mutual fund fees.

For more information on mutual funds, check out these other fact sheets and resources available on WISER's website, www.wiserwomen.org: *Guide to Understanding and Investing in Mutual Funds; Mutual Fund Fees & Expenses; Mutual Fund Investing: Investment Concepts to Consider*

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