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

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 three common 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.

Active 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 the 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. These are the most popular type of mutual funds, 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,
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

**Mutual Funds and ETFs: Maybe All You’ll Ever Need**
- 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 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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**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 potential 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.

The most important decision you’ll make as an investor isn’t which fund to buy. More important is how you choose from the various funds—mainly between stock funds and bond funds. You will also find it necessary to look at the fund manager’s performance. Since managers come and go, check to see how long the manager of a fund has been in charge. The manager who compiled it. Since managers come and go, check to see how long the manager of a fund has been in charge. The manager who compiled it. Since managers come and go, check to see how long the manager of a fund has been in charge. The manager who compiled it. Since managers come and go, check to see how long the manager of a fund has been in charge. The manager who compiled it. Since managers come and go, check to see how long the manager of a fund has been in charge. The manager who compiled it. Since managers come and go, check to see how long the manager of a fund has been in charge. The manager who compiled it. Since managers come and go, check to see how long the manager of a fund has been in charge.

**Assembling a Portfolio**

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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.