

## **MUTUAL FUNDS**

Mutual funds have been around for a long time, dating back to the early 19th century. The first modern American mutual fund opened in 1924, yet it was only in the 1990's that mutual funds became mainstream investments, as the number of households owning them nearly tripled during that decade. With recent surveys showing that over 88% of all investors participate in mutual funds, you're probably already familiar with these investments, or perhaps even own some. In any case, it's important that you know exactly how these investments work and how you can use them to your advantage.

A mutual fund is a special type of company that pools together money from many investors and invests it on behalf of the group, in accordance with a stated set of objectives. Mutual funds raise the money by selling shares of the fund to the public, much like any other company can sell stock in itself to the public. Funds then take the money they receive from the sale of their shares (along with any money made from previous investments) and use it to purchase various investment vehicles, such as stocks, bonds and money market instruments. In return for the money they give to the fund when purchasing shares, shareholders receive an equity position in the fund and, in effect, in each of its underlying securities. For most mutual funds, shareholders are free to sell their shares at any time, although the price of a share in a mutual fund will fluctuate daily, depending upon the performance of the securities held by the fund.

### **Advantages**

It may not be obvious at first why you would want to purchase shares in different securities through a mutual fund "middleman" instead of simply purchasing the securities on your own. There are, however, some very good reasons why millions opt to invest in mutual funds instead of, or in addition to, buying securities directly. Mutual funds can offer you the following benefits:

- diversification;
- choice;
- liquidity;

- low investment minimums;
- convenience;
- low transaction costs;
- regulation;
- additional services.

### **Disadvantages**

There are certainly some benefits to mutual fund investing, but you should also be aware of the drawbacks associated with mutual funds:

- no insurance;
- dilution;
- poor performance;
- loss of control;
- trading limitations;
- size;
- inefficiency of cash reserves.

There's a lot of terminology associated with mutual funds. These concepts are an important part of mutual fund investing; you should make sure that you understand them in full before you start to invest in mutual funds.

### **Net Asset Value (NAV)**

Open-end mutual funds price their shares in terms of a Net Asset Value (NAV) (note that you can calculate NAV for a closed-end fund too, but it will not necessarily be the price at which you buy or sell closed-end shares). NAV is calculated by adding up the market value of all the fund's underlying securities, subtracting all of the fund's liabilities, and then dividing by the number of outstanding shares in the fund. The resulting NAV per share is the price at which shares in the fund are bought and sold (plus or minus any sales fees). Mutual funds only calculate their NAVs once per trading day, at the close of the trading session.

### **Public Offering Price (POP)**

The public offering price (POP) is the price at which shares are sold to the public. For funds that don't charge a sales commission (or "load"), the POP is

simply equal to the Net Asset Value (NAV). For a load fund, the POP is equal to the NAV plus the sales charge. As with the NAV, the POP will typically change on a day to day basis.

### **Mutual Fund Family**

A mutual fund family is a group of mutual funds that is managed by the same company. It is usually easy to switch money between mutual funds that are part of the same family. Additionally, most fund families make monitoring multiple investments easier, and make tax time easier, by aggregating the information from the various funds for you.

### **Share Classes**

Mutual funds shares are sometimes broken down into lettered "classes" that have different characteristics. Here's a brief rundown of some commonly used designations:

- A: Shares that have a front-end load
- Y: Shares for institutional investors; no front-end load.
- Z: Shares for employees of the mutual fund.

## **↔ 9.2 VOCABULARY NOTES AND COMMENTARIES**

**net asset value** чиста вартість активів у розрахунку на одну акцію

**front-end load** комісія, стягувана до надання послуги (у момент придбання страхового полісу, відкриття кредиту тощо)

**open end fund** інвестиційний фонд відкритого типу (зобов'язаний реалізовувати вкладення на вимогу учасника фонду; має право постійно випускати нові акції)

**closed end fund** терміновий інвестиційний фонд (не зобов'язаний реалізовувати вкладення на вимогу учасників фонду)

**sector fund** інвестиційний фонд, який вкладає кошти в одну галузь