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Hands on Banking®
Money skills you need for life

About Mutual Funds

A mutual fund is an investment that pools the money of many individual investors. This money is then managed by experienced professionals who can buy or sell a diversified or well-mixed number of stocks, bonds, or money market securities for the fund. As a mutual fund investor, you own shares in a portfolio made up of as many as several hundred different securities.

Mutual funds are designed to offer the individual investor diversification and professional money management, even with low investment amounts. Mutual funds may be an appropriate investment option to consider if you're a beginning investor, if you don't have a lot to invest, or if you want diversification in your portfolio.

How do mutual funds work?

- **A mutual fund pools money from its many investors to purchase securities for the fund's portfolio.** As a result, investors typically own a portion of a portfolio that includes many more investments than they could afford to purchase individually. The value of the investor's share of that portfolio increases or decreases based on the value of the investments in the portfolio.
- **Every mutual fund has a specific investment objective.** Most mutual funds invest in stocks, bonds, cash equivalents, or a combination of these. Within those categories, a stock fund may emphasize domestic or foreign stocks or stocks from a particular industry sector. A bond fund may concentrate on investments with either long- or short-term maturities, or on government or corporate securities.
- **A mutual fund distributes its income and capital gains.** As the fund buys and sells investments within its portfolio, it distributes any income received from stock dividends or bond interest to the shareholders along with any capital gains from the sale of securities.

How risky are mutual fund investments?

ALL investments involve risk. However, as with any investment, risk and rate of return are related. Generally, as the risk of an investment increases, the potential return increases as well. In order to become a successful investor, you must match the mutual fund's risk level to your own risk tolerance and match your objectives with that of the fund (for example, selecting a fund with an objective of long-term growth if your target retirement date is 15 or more years away).

Be sure to read the prospectus before investing.

The prospectus tells you how the fund will invest, how you may purchase shares, how the fund will be administered, and what it will cost you in fees and other expenses.

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