

# Financial Focus

## Know Objectives of Mutual Funds Before Investing

With thousands of mutual funds on the market, how can you choose the ones that are right for your individual needs? For starters, you need to know the objectives of each mutual fund in which you plan to invest.

Let's take a look at the investment objectives of some of the most popular types of mutual funds:

**Growth funds**—These funds invest in the stocks of growing companies, with the goal of providing investors with capital appreciation. In plain English, you invest in these funds for the potential to make your money grow. If you invest in these funds, you will almost certainly experience the “ups and downs” of the market, but if you hold your funds long enough, and they are well-managed, you may increase your investment's potential return.

**Growth-and-income funds**—As the name suggests, a growth-and-income fund is structured to provide the potential for both growth in value and current income payments, in the form of dividends. Generally speaking, these funds are less risky than growth funds, yet offer lower growth potential. But if you are interested in adding an income stream to your portfolio, these funds may be suitable for your long-term investment goals. Dividends can be increased, decreased, or totally eliminated at any time...without notice.

**International funds**—You can choose from several types of international funds: global funds, which invest in both U.S. and international stocks; international funds, which invest primarily outside the U.S.; country specific funds, which focus on one country or region; and emerging market funds, which concentrate on small, developing countries. These funds generally invest for growth, but they involve special types of risk, such as currency fluctuations and the prospect of investments being affected by political or economic turmoil.

**Bond funds**—When you invest in a bond fund, you are seeking current income, in the form of interest payments, and the chance to help stabilize a portfolio that might be heavily weighted toward stocks. You can choose from municipal bond funds, corporate bond funds, mortgage-backed securities funds, and U.S. government bond funds. Although bond funds generally contain less investment risk than stock funds, they carry a different type of risk: purchasing power risk. In other words, the interest payments you receive from your bond funds may not always keep up with inflation. Keep in mind that bond funds are subject to interest rate risk and fund values may decline as interest rates rise.

**Money market funds**—These funds invest in short-term debt instruments and are managed to maintain a stable net asset value of \$1 per share, however the value of the fund can fluctuate and it is possible to lose money. Many people invest in money market funds if they want to “park” money for a short time before investing it elsewhere. You might also use a money market fund as an “emergency” fund containing six to twelve months’ worth of living expenses.

While these various types of mutual funds have some obvious differences, they also share two important traits in common. First, financial professionals choose the investments, which is obviously a benefit to you. Second, since mutual funds own many different types of securities, they offer the advantage of diversification. (Diversification, by itself, cannot guarantee a profit or protect against a loss in a declining market).

A financial advisor can help you choose those mutual funds that are appropriate for your needs. But it’s still your responsibility to know about the funds in which you invest. So, before writing a check, read a fund’s prospectus...which can be obtained from your financial advisor. The prospectus contains more complete information, including the fund’s objectives, risks, charges, and expenses which should be carefully considered.