

Mutual funds a long-term strategy

1 in 3 households invest in some type of mutual fund

By Barbara Woller
Staff Writer

Back in the early 1980s, Anne Carriero of Port Chester wanted to make some investments so she started to read about mutual funds.

Carriero, a part-time secretary/bookkeeper, today owns four funds. Her interest in mutual funds has grown, and so have the funds.

"I enjoy doing this," says Carriero, describing herself as largely self-educated about investing thanks to lots of reading and watching television shows that offer financial advice.

Carriero's advice to others thinking of buying mutual funds: "Pick a well-established company and expect to be in (the fund) for at least 10 years. Look for long-term growth. ... Slow and steady wins the race."

Carriero is among the estimated 40 million Americans who

CHANGING ECONOMY years alone.

Because there are so many funds, novices sometimes get daunted by thinking that there is just one "right" fund for them and obsess over finding it. And they feel they they have failed if they do not examine every single fund, says Walter Updegrave of New Rochelle, author of "The Right Way to Invest in Mutual Funds" published this month.

"That's nonsense," says Updegrave, who is also a senior editor of Money magazine. "There are lots of good, worthwhile funds out there."

The important thing is to get started.

Some reasons why mutual funds can be good choices for small investors:

■ You do not need a lot of money to begin. Some funds permit you to open an account for as little as \$250. Others waive a minimum initial deposit if you agree to make periodic investments such as \$50 a month.

■ A single mutual fund can better buffer you from the stock market's ups and downs than individual stocks because you need many stocks to provide the protection a diversified mutual fund offers.

Updegrave says you probably need at least 87 individual stocks to be properly diversified over many industries but an average diversified mutual fund offers 120 stocks.

■ Your money is professionally managed by a fund manager—the same person who handles money for investors who might have tens of thousands of dollars in the same fund you do.

■ You can invest in funds where you pay no "load" or commission charge.

Start to find a fund by defining your goals, be it to send your child to college, buy a vacation home or plan for your retirement.

"That sounds so simplistic but you can't imagine how many people (ignore) that," says Michelle Smith, managing director of the Mutual Fund Education Alliance in Kansas City, Mo.

Consider how much time you have for your investments to grow, says Gabriel Gibbs, president of the Volumetric Fund, a growth fund based in Pearl River with more than \$13 million in assets under management.

A young person can take more risks in their investments because they have many years to ride out the ups and downs of the market and still come out ahead, says Gibbs. An older person, however, might want less fluctuation in their assets.

And know how much risk you can tolerate whatever your age.

So-called "aggressive growth funds," for example, can offer the prospect of big dividends. But the flip side is that those funds



Staff photo/Laura Seitz.

Anne Carriero of Port Chester looks up the mutual funds quotes in the newspaper every day to check her investments. Carriero has been investing in mutual funds since the early 1980s.

can also mean big losses because they invest in more volatile stocks. So if you lack the stomach to withstand the market roller coaster, a "growth fund" might be a better choice for you. Growth funds usually offer lower dividends or interest than aggressive growth funds. But they also present less overall chance for loss because they invest in more stable stocks.

Next: Read some books or magazine articles to learn the basics.

"Don't get overwhelmed," says Dennis Kalian of Hartsdale, a publishing house salesman who started to buy mutual funds about a year ago. "Do your homework."

Plenty of easy-to-read information is available. Most libraries also have financial guides such as Morningstar and Value Line which can be helpful.

"It's not fair to assume you can build an investment portfolio out of thin air or on your brother-in-law's recommendation," says Smith of the Mutual Fund Education Alliance. "But people fall into that trap — especially when (a fund's) performance is great."

As you read up on mutual funds, you'll surely come across lists that rank the "best" funds in different categories. Barbara Roper, director of investor protection for the Consumer Federation of America, says you should read them with care because in some cases the information used to compile those lists can be so twisted that many funds could claim to be number one in something.

"Serious questions have been raised about those ads and their reliability and ability to mislead the public," Roper says.

Also don't chase today's "hot" stock because there is no guarantee it will be tomorrow's top performer.

And pay more attention to a fund's "total return" than to its yield to learn its true strength.

The yield indicates how much dividend or interest income the fund generates each year and is expressed as a percentage of the fund's current share price. The yield is a good way to see a fund's ability to produce current income.

But the most-used barometer of a fund's performance is its total return, which shows the change in value of a fund over a certain time period. Total return includes dividend and interest distribution as well as fluctuations in the fund's per-share price.

As you narrow your search, you can contact most funds through their toll-free free 800 telephone number. Call and ask for a copy of a prospectus to learn the fund's objective, fees and risks. Read it very carefully, says Stephen Meyers of Millwood, a retired engineer, who has invested in mutual funds for several decades.

For example, many growth and income funds may say their goal is capital appreciation while generating income is secondary, says Meyers.

"(But) that doesn't tell you anything about how a fund manager invests at all," Meyers says. Rather, he advises you to read the prospectus to see how the manager gets that growth and income. There are many ways to generate both.

Once you open a mutual fund account, your job is not over. Periodically monitor its performance. Also, try to add money to your fund on a regular basis. If you invest fixed amounts each

For more information

Many books and magazine articles on mutual funds are available in your local library.

They include "Making the Most of Your Money" by financial columnist Jane Bryant Quinn and "The Consumer Reports Mutual Funds Book" by Greg Daugherty and the editors of Consumer Reports Books.

You can also get more information from:

■ The Investment Company Institute, 1401 H St. N.W., Washington, D.C. 20005-2148, Attn: Michelle Worthy. Single copies of various brochures are available free including "What is a Mutual Fund? Eight Fundamentals" and "An Investor's Guide to Reading the Mutual Fund Prospectus."

■ The Mutual Fund Education Alliance, Dept. 0148, P.O. Box 419263, Kansas City, Mo. 64193-0148. They publish "Complete Mutual Fund Investor's Kit," and "Investor's Guide to Low-Cost Mutual Funds" This fall the alliance also opened a Web site on mutual fund investing at <http://www.mfea.com>.

— Barbara Woller



Staff photo/Kathy Gardner

Gabriel Gibbs is president of Volumetric Fund in Pearl River.

that pools money from many investors in securities to reach a common goal, be it to increase capital or to provide monthly income as well as capital growth. The funds may be composed of various securities like stocks, bonds or money market instruments like Treasury bills.

Americans have about \$3.1 trillion invested in mutual funds — up more than 180 percent from 1990, says ICI. And the trade group says that today there are more than 6,000 funds — a 96 percent surge in the past six

months you will buy more shares when the price is low and fewer shares when the price is high.

The 'load': To pay or not to pay