How to jump into mutual funds

Q. What are the different types of mutual funds and how do they work?

A. There are three categories of mutual funds — stock funds, income funds and money market funds.

Stock Funds

This is by far the largest fund category. There are several different types of stock funds, each with a different goal and investment objective.

• Aggressive Growth Funds — These high-flying funds are not for the skittish investor. They invest in small, fast growing companies and the managers that run them constantly buy and sell stocks, hoping to latch on to the hottest companies. The rewards can be great. In a good year, some aggressive growth funds have posted 40- and 50-percent returns. But the risks are great too. I've seen some aggressive funds lose up to 30 percent of their value in a year.

• Growth Funds — For the most part, these funds usually invest in large, growing companies with household names like Philip Morris and Warner-Lambert. Growth funds more stable than aggressive growth funds and during the past decade they were the best performing fund catagory. Between 1980

MONEY Q&A

By STEPHEN BRITTON

Gibbs

Among the most popular methods for individuals to invest in stocks and bonds is though mutual funds. However, with more than 4,000 mutual funds to choose from, finding the right one can be confusing.

Gabriel Gibbs, manager of Volumetric Fund in Pearl River, a no-load growth stock mutual fund with $5.4 million in assets, will help take away some of the mystery.

and 1989, the average growth fund provided investors with an annual return of 14 percent.

• Growth and Income Funds — Like the name implies, these funds are for investors who want the benefits of capital appreciation from growth companies as well as dividend income from utility and financial services stocks or bonds. These funds are the most conservative and their share prices don't fluctuate as widely as growth and aggressive growth funds.

• Specialty Stock Funds — These funds include international and global funds that invest in companies throughout the world as well as sector funds that invest in companies of a certain industry such as biotechnology and waste treatment. Because these are often the most risky funds, I recommend them only to experienced investors who already have the bulk of their portfolio invested elsewhere.

Income Funds

Also known as bond funds, these funds are invested in corporate and government bonds. Many of these funds are set up to pay shareholders monthly dividend checks. Although many people consider bonds to be conservative investments, there are funds invested in junk bonds that can be risky. Junk bond funds have been among the worst performing funds during the past three years.

Money Market Funds

These funds invest in treasury notes and short term corporate bonds. They usually payout higher interest rates than banks. Although most money market funds are not insured, because their investments are spread out among hundreds of securities, they are usually safe.

Q. What is the best way for an investor to start out with mutual funds? Is there a guide that you recommend and do you think it is better to start out investing in one fund or several.

A. Start by visiting the local library. You can find books on funds and most have a good selection of personal finance magazines like Changing Times and Money that track mutual fund performance.

Another good source for mutual fund information is the Investment Company Institute, a non-profit organization based in Washington. They offer numerous booklets describing different types of funds. They also publish The Guide to Mutual Funds, which lists more than 2,000 funds, and a bargain at $5. You can write to the Investment Company Institute at 1600 M St., N.W. Suite 600, Washington, D.C., 20036 or call them at 202-955-3534. Another book I recommend is The Handbook for No-Load Investors by Sheldon

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Jacobs. This book can be purchased at most book stores.

Q. The fees involved with mutual funds can be confusing. What exactly are loads, 12-b fees and how much do investors usually windup paying in annual fees.

A. A "load" is a sales charge that goes to the broker who sells the fund. The fee can range from 1 percent to as much as 8.5 percent. It's been proven that loan funds don't perform any better than no-load funds that don't charge sales fees. A 12-B fee (the term is taken from the Securities and Exchange Commission) is a percentage of the fund that is not used for investment and is used to market the fund to other investors. Because of the negitive publicity 12-B fees have been receiving, many funds are discontinuing the practice.

Management commissions on stock funds range from .66 percent for large funds with billions in assets to 2 percent for small funds. The highest management commissions are usually charged by international funds because there are more costs involved in research and currency exchanges. There are some international funds that charge more than 3 percent annually.

Bond fund management fees are typically less than 1 percent and the least expensive management fees are charged by money market funds, which charge less than .30 percent. In fact, because of the competition between money market funds, there are some that have waived management fees to attract new investors.