Investing in Mutual Funds

You've decided to invest some money to help meet your financial goals. Now what? Many people choose mutual funds.

As its name suggests, a mutual fund pools together money from many investors. This money is then invested by a portfolio manager (also known as a fund manager or investment manager) according to the fund's investment objectives, approach and style. The goal is to increase the fund's value – and your wealth – by owning securities that rise in price. In some cases, the fund will also generate income through dividend or interest payments.

Portfolio managers conduct extensive research and decide which securities (e.g., stocks, bonds) to buy and sell. For their efforts, they earn a fee paid from the fund's assets. This fee varies depending on the type and size of the fund, among other variables.

Benefits of mutual funds

A key reason for investing in mutual funds is diversification. By pooling your money with other investors, you gain access to a portfolio of securities that would be difficult, if not impossible, to construct on your own. A well-diversified basket of securities has the potential to reduce volatility and enhance longer-term returns.

You also benefit from professional management, as most people lack the time and expertise to manage their own investments. Portfolio managers make informed buy and sell decisions based on intensive research and expert knowledge of the economy and markets. Delegating investment management to qualified professionals makes mutual fund investing convenient and provides peace of mind, especially when the markets are going through a rough patch.

Types of mutual funds

Thanks to strong investor demand and healthy competition between the fund companies, today's investor has an extremely broad range of choices. To help you navigate the options, we can break down the main fund types into seven categories:

- **Equity funds** invest in stocks and differ by investment style, allocation (sector, geography, etc.) and whether their primary objective is long-term capital appreciation or steady income generation.
- **Bond funds** invest in a range of fixed-income products, from the relative safety of government bonds to higher-risk (but with higher potential return) corporate bonds.
- **Money market funds** invest in short-term fixed-income securities that are typically secure, such as Treasury bills and commercial paper.

- **Balanced funds** invest in a combination of stocks and bonds, with the goal of achieving higher long-term returns than bond funds but with less risk than pure equity funds.
- **Niche funds** invest in specialized categories such as emerging markets, gold, real estate and other alternative assets, providing access to market segments that would otherwise be very difficult for individuals to invest in.
- **Index funds** invest in all the securities that make up a particular market index, such as the S&P 500, with the goal of tracking the index's performance. Such funds provide broad access to a specified market category.
- **Managed funds** invest in other mutual funds, typically with the aim of providing a one-stop, all-in-one investment solution. In other words, rather than choosing individual equity, bond and niche funds on your own, the portfolio manager will make these choices for you, resulting in a ready-made, fully diversified solution. Managed funds are usually offered as a suite, with each portfolio in the suite tailored to a specific investor risk profile.

Mutual fund risks

Unlike GICs or bank accounts, money invested in mutual funds is not protected by the Canada Deposit Insurance Corporation. Since mutual funds contain securities like stocks, bonds and commodities, they carry many of the same risks as investing directly in them. If security prices decline, a mutual fund's value will decline accordingly.

Security prices may decline for any number of reasons, such as overall economic or market conditions, changes to interest rates or currency exchange rates, geopolitical issues and other factors. If mutual fund prices decline, you risk losing money on your investment.

How to buy mutual funds

Most mutual funds are available exclusively through licenced financial advisors. A key reason for this is that effective investing involves a complicated set of decisions, and fund companies want to be sure that you have the benefit of professional guidance when making a choice that can mean the difference between meeting and falling short of your financial goals.

Get in touch with us today if you'd like to learn more about the benefits of mutual fund investing.

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