

What Is a Mutual Fund?

Since the creation of the first modern-day mutual fund, the Massachusetts Investors Trust, in 1924, there has been a steady growth of mutual funds. Today there are about 7,800 mutual funds.¹ Because of their convenience and flexibility, you might want to consider including mutual funds in your investment portfolio.

A mutual fund is a collection of stocks, bonds, and other securities that is purchased and professionally managed by an investment company with the capital from a group of investors. When you invest in a mutual fund, the investment company pools your money with that of other investors that is invested to pursue the objectives stated in the mutual fund prospectus.

As a mutual fund shareholder, you gain an equity position in the fund and, therefore, in all of the underlying securities. You share in any gains and/or losses of the fund. The mutual fund manager trades securities, incurring capital gains or losses, and generates dividend or interest income. Some mutual funds hold securities that offer the potential for capital appreciation. When these securities are sold by the fund, it distributes the profits from the sale to its shareholders in the form of capital gains. Most mutual funds will automatically reinvest your dividends and capital gains in additional shares, if you'd like.

You can redeem your mutual fund shares at any time for their current market value. The value of mutual fund shares is determined daily, based on the total value of the fund divided by the number of shares purchased. The return and principal value of mutual fund shares fluctuate with market conditions; shares, when redeemed, may be worth more or less than their original cost.

Purchasing shares in a mutual fund can give you access to a diversified portfolio, often without having to spend a large chunk of money and time deciding which types of individual securities to purchase on your own. In addition, you benefit from having your investment managed by a financial professional. Diversification is a method to help manage investment risk, but it does not guarantee a profit or protect against loss investment loss.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about

the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Source: 1) Investment Company Institute, 2014

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