How Do Mutual Funds and Stocks Differ?

Whether you're a first-time stock investor or a seasoned veteran, you should understand what differentiates single stock investments from mutual fund investing.

First, Some Working Definitions

Picture a collection of stocks, bonds, or other securities that are purchased by a group of investors and then managed by an investment company. That's a mutual fund.

When you buy a share in a fund, you're really buying a piece of a large, diverse portfolio. Conversely, stocks are shares of a single company.

Stocks vs. Funds:

The Management

When it comes to managing an investment, some investors prefer leaving those details and skills to someone else.

They like having a professional manager oversee the day-to-day decisions that a changing stock investment involves and see that as a distinct advantage. A good manager, they might argue, has access to information that would cost them an exorbitant amount, even if they had the time and inclination to do the work themselves.

On the other hand, some investors would never surrender control of their investments. Part of the thrill of investing is knowing that when they succeed it was due to their own decisions, these investors might say.

Individual comfort level plays a big part in your investment choice.

Diversifying Matters

When one security in a fund drops, an insightful fund manager may have included stocks that could cushion or offset that loss. Diversification is a big selling factor for mutual funds.

But that's not to say that an investor couldn't diversify via his or her own stock selections. Diversification does not guarantee a profit or protect against investment loss; it is a method used to help manage investment risk.

Liquidity

Fund investors can cash in on any business day.

When you sell a stock, you must wait three business days before the trade settles and your money is released.

The Issue of Red Tape

Mutual fund investors often cite transaction ease as an inviting factor. And it is hard to beat the convenience of having records and transactions handled for you, while periodically receiving a detailed statement of your holdings.

Transacting business with stocks can be a more complicated experience. Placing buy orders, selling shares, or dictating any number of orders can be time-consuming. To some, however, that's just part of the experience.

In summary, fund investors are often attracted by the overall convenience. By way of contrast, stock investors may tend to be more comfortable with their own investing skills.

Remember the value of both mutual funds and stocks will fluctuate with changes in market conditions, and when sold the investor may receive back more or less than their original investment amount.

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.