Life, Health, & Wealth

Owning A Slice Of The Pie

The goal of every investor is somewhat unique and finding the appropriate investment product can be daunting. Unfortunately, the economic challenges of the last five years have not made this process any easier. For many investors getting professional investment management advice is the prudent way to proceed.

Many people include investment vehicles such as mutual funds as part of their investment strategy. Most local wealth management firms offer investors a variety of mutual funds that aim to provide capital preservation with some income potential (Lower Risk/Lower Return), income generation with some capital appreciation potential (Medium Risk/Medium Return) or capital appreciation with some income generation (Higher Risk/Higher Return). The basic terms for these types of funds would be an Income Fund, Balanced Fund and a Growth Fund.

A key benefit with mutual funds is that they already have an established investment portfolio which is managed by a professional investment manager and the fee structure is clearly stated in the fund's offering memorandum.

How to invest in mutual funds: Mutual funds will have a stated minimum initial investment and minimum subsequent investments that can be as low as $100.00 and subsequent investments as low as $25.

How to select the fund that's right for you: Investors should seek professional investment advice prior to deciding which type of mutual fund is more appropriate for them. The investment professional needs to factor in the current economic climate, investor's age, personal financial situation, willingness and ability to take risk, investment objectives and investment knowledge. For example, if you are 55 years old and planning to retire in 10 years, your ability to take risk is usually lower than someone who is 25 years old with forty years ahead of them before retirement.

As with any investment vehicle, mutual funds present advantages and disadvantages relative to the investor's unique circumstances and objectives.

Advantages of Mutual Funds include:

• ***Diversification.*** Mutual funds have diverse portfolios and diversifying (spreading) your investment allocation across multiple investments reduces exposure to the risk of any single security in your portfolio.

• ***Professional management.*** Mutual fund investment managers manage the fund's investment portfolio and ensure the Fund's investment mandate is adhered to. They are also constantly researching and analyzing current the holdings for their fund and potential new investments for the fund.

• ***Liquidity.*** Open-ended mutual funds allow monthly subscriptions into the fund and monthly redemptions from the fund. Also, the fund is obligated to payout all redemptions within a stipulated period of time.

• ***Variety of types of funds.*** The availability of different types of mutual funds helps you "customize" your investment portfolio to correspond with your objectives and capacity for risk.

• ***Low minimums.*** Mutual funds typically require only moderate minimum investments, from a hundred to a few thousand dollars, enabling you to build an affordable, diversified portfolio.

Disadvantages of Mutual Funds include:

• ***Unsuitable for Short-term investment*** or as an Emergency Fund. Money market funds are a notable exception.

• ***Professional Investment Management is not infallible***. All investments have some element of risk which cannot be diversified away.

In considering a mutual fund as part of your investment strategy, you should examine the pros and cons as they fit your particular needs. Bear in mind that mutual funds can experience price fluctuations and the value of your fund can depreciate as well as appreciate. That's why it's important to talk with a professional advisor to crystallize your objectives, determine your risk tolerance, and understand the fund's long-term expected performance.

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