What is a Mutual Fund

A mutual fund invests pooled money of its shareholders in various types of investments. The idea behind this pooling of investor money is to give each shareholder the benefits that come from the ownership of a diversified portfolio. The fund manager buys and sells securities for the fund's shareholders. Mutual funds are not risk free. Their values rise and fall along with the securities in the fund.

Benefits of mutual funds for the investor include

Diversification
Professional Management
Relatively low-cost shares
Liquidity and convenience (easy to buy and sell shares)

Types of Mutual Funds

Each mutual fund has an objective that determines the types of securities it invests in. The fund's portfolio has investment risk directly related to the securities it contains as well as to general market and business conditions. For example, an aggressive growth fund, because the prices of securities in its portfolio are more volatile, is generally riskier than an income fund, which may invest in conservative stocks and bonds whose prices do not fluctuate greatly but that pay high dividends or interest. Regardless of the investment strategy or portfolio, no fund can escape market risk.

Aggressive Growth Common Stock funds invest primarily in common stocks to maximize capital gains. They may invest in out-of-favor companies or companies in new industries. Current income, that is dividends, is not a significant factor.

Income Funds seek a high level of current income by investing in both equity securities (generally high yielding common and preferred stocks) and debt instruments (e.g., high yielding bonds).

Money-market Funds invest in securities with short-term maturities. Portfolios can include commercial paper issued by corporations, negotiable certificates of deposit, short-term corporate obligations, and U.S. government issued or backed securities, such as Treasury bills and notes.

Corporate Bond Funds seek income by investing primarily in the bonds of corporations.

Municipal Bond Funds invest in bonds issued by states and municipalities to finance public projects.

U.S. Government Income Funds invest in a variety of government securities.

Specialty funds focus on a single industry sector or geographical area, such as pharmaceuticals or companies in the "Pacific rim" countries.

A fund seeks to attain its investment objectives by choosing a portfolio that fits its investment policies or strategies.

Balancing Risk with Investment Goals

Do not let anyone tell you that mutual funds are risk free. While risks vary depending on the fund, the potential danger is the same – loss of principal and income. You must determine your own risk tolerance level. This determination should be mad with your investment goals in mind. The following chart is intended to provide you with a starting point for matching mutual fund objectives with your risk tolerance. Be aware that not every fund designed to meet one of the stated objectives will have a similar degree of risk. You should refer to the fund's prospectus to determine the risks associated with a fund.

FUND OBJECTIVE	DEGREE OF RISK
Money Market	Low
Growth	Medium to High
Aggressive Growth	High
Income	Low to Medium
High Income	High
Balanced	Medium

Disclosure: Where to get the Facts

The key disclosure documents for mutual funds are the prospectus and the Statement of Additional Information (SAI). The prospectus explains the fund's investment objectives, risks, sales charges, expenses, fees, and services. The SAI includes the fund's audited financial statements, a list of securities in the fund's portfolio at the end of its fiscal year, a list of the fund's officers and directors, and other important information. The prospectus must include appropriate instructions as to how to obtain the SAI.

You should obtain and read the prospectus and SAI from the salesperson or directly from the company before you make the decision to invest.

Mutual Fund Sales Charges (Loads) and Other Expenses

All mutual funds have annual management fees. Some funds have additional fees when shares are bought and sold. Sales charges on mutual funds are often referred to as the "load." There are no-load funds, front-end load funds and back-end load funds. **Look in the front of the prospectus for a summary of fees**. Federal law requires they be disclosed.

No-load funds are purchased directly from the fund and do not charge a purchase fee, but can charge up to 8.5 percent in management charges or the "maximum load" allowed by the Securities and Exchange Commission.

Load funds may be purchased through brokers or directly from the investment company. They have an up-front or back-end of 2 to 8.5 percent depending on the fund. Loads can be classified as front-end and back-end. You pay the front-end load when you purchase shares. You pay the back-end load when you redeem your shares.

Some funds use an indirect charge, known as a Rule 12b-1 fee, named for a Securities and Exchange Commission rule, which can range from one-tenth to one-and-one quarter percent of the fund's average annual assets. Over a period of a year the Rule 12b-1 fee, which has the effect of lowering the shares' net asset value by subtracting the fee from the fund, can cost the investor more than the sales fee charged by load funds.

Fund Expenses, Sales charges, or loads are distinct from fund operating expenses; that is, a fund will have operating expenses whether or not it charges a load. These expenses are usually deducted from the fund's dividend and interest income and directly affect the investor's rate of return. Expenses include the adviser's fee for managing the portfolio, the custodian's and transfer agent's fees, the fund's brokerage commissions, expenses for annual meetings, etc.

Tips on Buying Mutual Funds

Determine your financial objectives and how much money you have to invest. Make sure the fund's objectives coincide with your own. Don't change your objectives or exceed the amount set aside for investment unless you have good reason.

Always obtain all available information before you invest. Request the prospectus, the Statement of Additional Information and the latest shareholder report from each fund you are considering.

Never invest in periodic payment plans unless you are virtually certain that you will not have to redeem early. If you redeem early or do not complete the plan, you may have to pay sales charges.

Always determine all sales charges, fees and expenses before you invest. Fees such as 12b-1 fees can cost you dearly and charges for reinvestment of dividends and capital gains distributions can substantially add to your costs. Shop around among the many funds offered and compare the various fees and costs connected with funds that appeal to you.

Learn the costs of redemption. Sometimes investors are surprised to learn that they have to pay to get out of funds through back-end loads or redemption fees. Find out the redemption costs before you invest so you won't be unpleasantly surprised when you redeem your shares.

Never treat the risks of investment in a fund lightly. Weigh the risks of the funds you want to buy against your ability to tolerate the ups and downs of the market and your

investment goals. Be extra cautious when considering investing in funds with high yield/high risk portfolios.

Don't be misled by the name of a fund. Some funds have been given names denoting safety, stability and low risk, despite the fact that the underlying investments in the portfolio are volatile and highly risky.

Don't base your decisions solely on advertising and sales materials. Unlike the prospectus and the SAI, advertising and sales literature are not reviewed by the Securities and Exchange Commission before they are issued. The picture presented in a fund's advertisement might be rosier than that revealed by the prospectus and SAI.

Glossary

Back-end Load - Charge imposed by a mutual fund when an investor redeems shares. Redemption fees and contingent deferred sales charges are examples.

Contingent Deferred Sales Charges - Back-end load imposed on an investor who redeems shares. It is usually expressed as a percentage of the original purchase price or of the value of shares redeemed. In most cases, the longer the investor holds his shares, the smaller the deferred sales charge.

Distribution - Payments made to shareholders by the mutual fund. Interest and stock dividends earned by the fund's portfolio are passed to shareholders as dividends, while capital gains are passed as capital gains distributions.

Dividend Reinvestment Fee - Fee charged when an investor uses dividends paid by a mutual fund to purchase additional shares of the mutual fund.

Exchange Fee - Fee charged when an investor switches from one mutual fund to another in the same family of funds.

Front-end Load - Sales charge applied at the time the investor purchases shares.

Investment Companies - The companies that pool investor monies to purchase securities. The Investment Company Act of 1940 created three types of investment companies: face-amount certificate companies, unit investment trusts and management companies.

Management Companies - There are two types: open-end and closed-end. Open-end funds, which sell and buy shares back on demand, are called mutual funds. Closed-end funds have a fixed number of shares. After the initial public offering, shares in closed-end funds trade only on exchanges. The price is determined by the market and does not necessarily reflect the net asset value of the shares.

Management Fee - A fee paid by the mutual fund to its investment adviser and charged against fund assets, generally 1% or less per year.

Net Asset Value - In effect, the share price of a fund computed daily by adding the value of the fund's securities and other assets, subtracting liabilities, and dividing by the number of shares outstanding. For a mutual fund with a front-end load, net asset value is identical to the "asked price" or "offering price."

Prospectus - A disclosure document which should provide the investor with full and complete disclosure of all material information needed by the investor to make a decision whether or not to invest. The prospectus generally incorporates the SAI by "reference." (See SAI definition.)

Redemption Fee - A fee charged to an investor who redeems shares. It is generally expressed as a percentage of the value of shares redeemed.

Rule 12b-1 Fee - An asset-based sales load, permitted by SEC Rule 12b-1, representing annual charges of up to 1-1/4% for specific sales or promotional activities of the mutual fund. Over time, the amount paid in Rule 12b-1 fees can surpass the amount paid in sales fees charged by load funds.

SAI - A disclosure document called a Statement of Additional Information. The SAI is not required to be furnished by mutual funds to investors unless investors specifically request it. Investors are responsible for information in the SAI, even if they don't request it.

Total Return - A computation of mutual fund performance, which measures changes in total value over a specified time period. Included in the computation are distributions paid to investors, capital gains distributions and unrealized capital gains and losses. Since all fund activity, which has an effect on net asset value is represented, this measure provides a picture of performance which is more complete than yield.

Yield - A measure of mutual fund performance, which is figured by dividing the income generated (dividends, capital gains distribution, etc.) per share for a specific time period by the fund's current price per share. For example if, during a year, a single share of a fund had paid income totaling $1 and its share price was $10, the annual yield for that year would be figured by dividing 1 by 10, which equals one tenth, or a yield of 10%.

FUND – RATING WORKSHEET

Make Copies of this sheet for use when comparing different funds as you do your preliminary research.

Your Objective _____
(growth, growth & income, tax-free income, etc.)

Funds Objectives _____

Fund Manager_____

Years on the job, education etc. _____

Annual Returns: One Year_____%

Three Years_____%

Five Years_____%

Ten Years_____%

Annual Volatility _____
(Is each year's price range wide or narrow?)

Front-End Load _____%

12b-1 Fee _____%

Back-End Load_____%

Expense Ratio _____%

Portfolio Turnover _____%

Morningstar Rating _____ Stars