Mutual Funds For The Beginner Investor

Are you ready to dip your big toe into the deep sea of investing?

Mutual funds might be a great place for you to start. With as little as $1,000 to invest and a broad exposure to different stocks, mutual funds are a safe choice for the beginner investor. When you invest in a mutual fund, you're buying a collection of stocks, bonds, other securities or any combination of such assets. You purchase shares in this fund, and for a fee, a manager makes all the buying and selling decisions in the portfolio.

Not quite autopilot, but pretty simple, right?

Before jumping in, though, it's important to note that 80% of mutual funds don't beat the market. However, if you do the appropriate research and select the right kinds of funds, it can provide you with instant diversification and expose your portfolio to a range of sectors, industries and companies. Risk is also lower with a mutual fund, since you're not solely dependant on the success of a single company.

Mutual funds are also fairly inexpensive, since you don't need to pay a commission every time you purchase more shares in your fund. Once you've determined that you'd like to invest in a mutual fund, here's what you can do to get started:

1.) Save for your first mutual fund purchase

You can invest in a mutual fund with as little as $1,000. Some companies have slightly higher initial purchase amounts, so if you've already chosen a mutual fund to invest in, make sure you are clear on how much money you'll need to get started. After that initial purchase, subsequent purchases of the same fund can be as low as $100.

Bear in mind, though, that investing always means risking a loss – only invest if you can really afford to lose the money. If you're ready to take that first step, start putting money away toward your first investment.

2.) Choose your mutual fund

This is the most important part of your investment. It's more than just finding the best performers; you'll also want to clarify your investment goals and long-term strategy. For example, if you're saving for retirement, your time horizon is likely a decade long or more. This means you can afford to take more risk and can allocate more of your investment assets to stock funds over bonds.

Here are some types of funds you might want to consider:

- **S&P 500 index funds –** Index funds hold the same securities that are found in an index. They have very low expense ratios while providing the investor with exposure to tens or hundreds of stocks representing a variety of industries. S&P 500 Index funds invest in approximately 500 of the largest companies in the U.S. They are managed passively and have low operating costs because their primary goal is to mirror the holding and performance of an index.

- **Balanced funds** – Also called hybrid funds or asset allocation funds, these mutual funds invest in a balanced asset allocation of stocks, bonds and cash. The asset distribution is fixed and it invests according to an acknowledged investment goal or style.

- **Target date mutual funds –** These funds invest in a mix of stocks, bonds and cash that is appropriate for a person investing until a predetermined year, which is usually the individual's anticipated date of retirement. The target year is part of the investment name. As the target year approaches, the fund manager gradually decreases market risk by shifting fund assets out of stocks and into bonds and cash.

Once you've chosen a category for your mutual fund, you'll have to choose a company. Doing the proper research on any company you are considering is crucial. Find company annual reports and more through sources like Bloomberg, Financial Sense, Forbes, MarketWatch, Nasdaq and The U.S. Securities and Exchange Commission.

Look for companies that offer no-load funds. These are ideal for the beginner investor since they are free of "loads," or broker commissions and sales charges. Some of the best no-load mutual fund companies include Vanguard, Fidelity and T.Rowe Price.

3.) Open an investment account

Once you've chosen a company for your investment, you'll need to open an investment account at a brokerage firm or your mutual fund company to purchase your fund. This won't cost you anything (at least, it shouldn't); you'll simply need to follow the procedures of your chosen company. You can do this easily online.

At this point, you'll need to know which type of account will work best for your investing needs. Here are the basic account types and a brief explanation of how each one works:

- **Individual brokerage account –** A regular brokerage account established for an individual. Contributions are not tax deductible; investors pay taxes on capital gains and dividends.
- **Joint brokerage account –** Similar to an individual brokerage account with the distinction of having two account holders, typically spouses.
- **Individual retirement account (IRA) –** Qualifying individuals can make non-taxable contributions. Growth is tax-deferred; account holders don't pay taxes until withdrawals are made.
- **Roth IRA –** An individual retirement account funded with after-tax dollars. Contributions are not tax-deductible, but growth is tax-deferred and qualified withdrawals are tax-free.

4.) Invest

Congratulations! You are now ready to purchase your first mutual fund. Once you've completed this final step, you'll have laid the foundation for your investments. You can now build upon that foundation by purchasing more shares of this fund and even adding more funds for greater diversity.

Then sit back, and watch your money work for you!

SOURCES*:

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