GATEWAY

WEALTH STRATEGIES

Your center for financial and retirement planning

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Mutual Funds: Do You Know What’s in Your Portfolio?

An estimated 102.5 million investors — representing almost 46% of U.S. households — owned mutual funds at the end of 2020 (most recent data). These individual retail investors held about 89% of the $23.9 trillion in assets invested in U.S. mutual fund companies.[1]

Mutual funds offer a convenient way to participate in a broad range of market activity that would be difficult for most investors to achieve by purchasing individual securities. With almost 7,500 funds available on the U.S. market, you should be able to find appropriate investments to pursue your goals.[2] However, it’s important to periodically examine the mix of funds you hold.

Risk and Growth

If you are approaching retirement or already retired, this may be a good time to assess the risk level and growth potential of your funds, along with any other investments in your portfolio. It’s generally wise to reduce risk as you near retirement, but you may also need to pursue long-term growth opportunities.

The following overview describes some basic types of funds in rough order of risk, from lowest to highest. Although performance is never guaranteed, risk and growth generally have an inverse relationship. Lower-risk investments typically have low to moderate growth potential, while investments seeking to achieve higher returns carry an increased level of risk.

Money market funds invest in short-term debt investments such as commercial paper and certificates of deposit, and are typically used as a cash alternative. *Although a money market fund attempts to maintain a stable $1 share price, you can lose money by investing in such a fund. Money market* *funds are neither insured nor guaranteed by the FDIC or any other government agency.*

Municipal bond funds generally offer income that is free of federal income tax and may be free of state income tax if the bonds in the fund were issued from your state. Although interest income from municipal bond funds may be tax exempt, any capital gains are subject to tax. Income for some investors may be subject to state and local taxes and the federal alternative minimum tax.

Income funds concentrate their portfolios on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends.

Balanced funds, hybrid funds, and **growth and income funds** seek the middle ground between growth funds and income funds. They include a mix of stocks and bonds and seek to combine moderate growth potential with modest income.

Reasons to Invest

Seventy-five percent of U.S. households who own mutual funds cite retirement as their *primary reason* for investing. However, people invest in funds for multiple reasons.

Percentage of mutual fund–owning households who cited these reasons for owning funds

Source: Investment Company Institute, 2021

Value funds invest in stocks of companies that appear to be undervalued by the market. They are more volatile than balanced funds, but typically offer dividend income and may have solid growth potential if the market recognizes the underlying value.

Growth funds invest in the stock of companies with a high potential for appreciation but low emphasis on income. They are more volatile than many types of funds.

Global funds invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

Sector funds invest almost exclusively in a particular industry or sector of the economy. Although they offer greater appreciation potential, the volatility and risk level are also higher because they are less diversified.

Aggressive growth funds aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be more volatile, and are considered to be very high risk.

Bond funds (including funds that contain both stocks and bonds) are subject to the interest-rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are typically not guaranteed.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Mutual fund shares, when sold, may be worth more or less than their original cost.

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.

1–2) Investment Company Institute, 2021-2022 (number of mutual funds as of January 2022)

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