

What is a Mutual Fund?

Suggested Grade

Grades 6-8

Suggested Time

45- 50 minutes

Teacher Background

A mutual fund is a collection of stocks, bonds, and other securities owned by a group of investors and managed by a professional investment advisor. The advisor, often known as a "mutual fund manager" collects money and invests that pool of money in various stocks, bonds and other assets. An asset is anything that can be sold for cash. Some mutual funds are riskier than others depending on the investments they have chosen. The mutual fund manager has a team of analysts to help determine which assets to include in the mutual fund. Mutual funds often invest in 100 or more stocks and bonds (also referred to as securities).

There are different mutual funds for different investment strategies and risk tolerances -- from conservative to speculative -- and funds that address environmental and social issues. For example, a "green" portfolio, is composed of stocks from companies that consider the environmental impact of their business. Every day the fund's manager and analysts evaluate the fund's overall market performance, the effect of economic news on the fund's assets, and which ones to hold, which to sell, and which to buy?

The mutual fund manager must follow a clearly stated set of objectives when deciding what to buy or sell. The objectives can be found in the mutual fund's prospectus (a detailed description of the mutual fund and what it is invested in).

Investing in mutual funds can be a highly successful strategy because they help individual investors diversify their portfolios.

This lesson will teach the students how to find and research various mutual funds. After finding three funds of their choice, the students will conduct an examination of the funds in depth. They will review the fund's profile and analyze its portfolio.

Vocabulary

Bonds: An IOU that a company or government sells when it borrows money. Bonds are called fixed-income investments because they pay a fixed amount of interest to the bondholder for the use of his/her money.



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Closed-end funds: Like open-end mutual funds, these are collections of securities managed by a professional investment advisor. Unlike open-end mutual funds, their shares are traded on a stock exchange like ordinary stock.

Diversification: An investment strategy in which you spread your investment dollars among different markets, sectors, industries, and securities. The goal of the strategy is to protect the value of your overall portfolio in case a single security or market sector takes a serious downturn and drops in price.

Exchange-Traded Funds: Funds whose shares, like closed-end funds, are traded on a stock exchange. These invest in stocks or bonds that closely follow an index.

Index: An index reports changes, usually expressed as a percentage, in a specific financial market, in a number of related markets, or in an economy as a whole. Each index — and there are a large number of them — measures the market or economy it tracks from a specific starting point, which might be as recent as the previous day or many years in the past.

Mutual funds: An investment instrument developed and managed by a company that pools members' money—often millions of dollars—to invest in a variety of stocks and bonds. Investment professionals who research companies and buy or sell stocks actively manage the funds based on what they think is best for the fund's shareholders.

Open-end funds: Funds that usually sell as many shares as investors want to buy. Sometimes open-end funds stop selling shares to new investors when they grow too large to be managed effectively. Investors who want to sell shares of their open-end funds, sell them back to the mutual fund.

Performance Objectives

Students will be able to:

- Define and identify the characteristics of a mutual fund
- Use the newspaper and Internet to research mutual funds.
- Use their research on mutual funds to help determine team investments for the Stock Market Game.
- Create and deliver a presentation on mutual funds, their risk and performance

Materials

Activity Sheet 1: What are Mutual Funds?

Activity Sheet 2: Reading and Interpreting Information on Mutual Funds

Activity Sheet 3: Selecting and Evaluating a Mutual Fund



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Springboard Activity

Have students, working in their Stock Market Game teams, brainstorm the different products and services people buy and use. Have students name a range of products in these three categories:

Information (software, media, telecommunications, hardware)
Services (healthcare, consumer, business, and financial services)
Manufacturing (consumer goods, industrial materials, energy, utilities)

Explain to the students that when you are making investments, you want to diversify your portfolio. As an investor, why do you want to invest in companies under all three categories?

NOTE: Diversification is taught in Unit 2.

Ask your students:

1. How many of you would invest in products in more than one of the categories?
2. What if you could only buy in one category? Would that put your money in greater risk?

Procedure

Distribute **Activity Sheet 1: What are Mutual Funds**. It will give the students a better understanding of mutual funds and how they operate. Have the students complete the activity sheet in their SMG teams; first individually, then sharing responses with their team members, and finally with the class.

To help them in finding funds, they can visit the **Top Holdings** section of their team portfolio and select "mutual funds" as their Equity Type. Yahoo! Finance also provides a list of **Top Mutual Funds** on their site:
<https://finance.yahoo.com/mutualfunds>

Morningstar provides mutual fund news that may mention funds your students might be interested in: <https://www.morningstar.com/funds>

Review answers to questions on **Activity Sheet 1**, use responses to help students determine if mutual funds would be a good investment for their team.

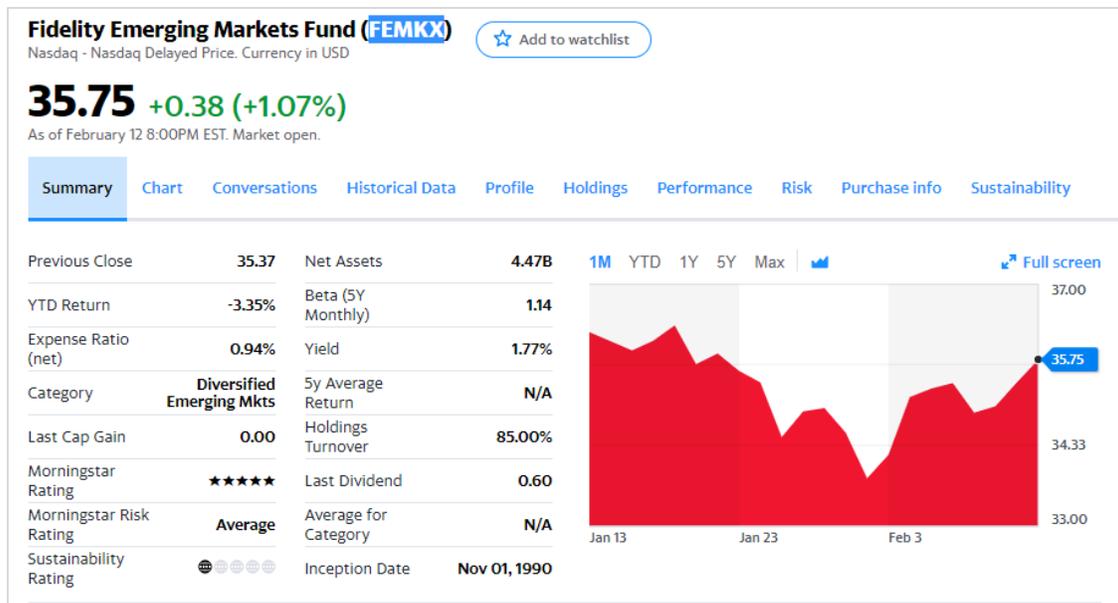
Understanding information provided in a mutual fund quote is important for all investors. Distribute **Activity Sheet 2: Reading and Interpreting Information on Mutual Funds**, and review with the students how to read the chart.

The price quote on the activity sheet is a screenshot of a price quote for Fidelity's Emerging Markets Fund. Definitions are provided only for terms that may be new to students.



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Source: <https://finance.yahoo.com/quote/FEMKX?p=FEMKX&.tsrc=fin-srch> (captured 2/12/2020)

A mutual fund quote is referred to as **NAV**. It is an acronym meaning: **Net Asset Value**. It represents the value of one share of this fund just like the price quote for a stock. **NAV** is calculated by taking the total value of the fund's investments, subtracting its expenses and dividing by the number of shares in the fund. Unlike a stock quote, **NAV** is calculated once a day after the market closes, 4 PM ET.

The YTD (Year-To-Date) Return is the percentage increase or decrease in value for one share since the beginning of the current calendar year.

A mutual fund's Expense Ratio is how much it costs to maintain the fund in proportion to the value of the mutual fund. Costs can include management fees, recordkeeping, and accounting and auditing fees.

Net Assets represents to total amount of money invested in all available classes of the mutual fund. Mutual funds like stocks are issued in classes. Each class provides shareholders with specific rights.

A mutual fund's Holdings Turnover is the rate a mutual fund replaces its assets annually.

Using the mutual funds they selected for **Activity Sheet 1**, ask your students to practice looking up mutual fund quotes. They can use Yahoo! Finance or another financial news site.



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Assessment

Use **Activity Sheet 3: Selecting and Evaluating a Mutual Fund** to help your students expand their research. They should select two or three new mutual funds.

Ask your students:

1. Based upon what you have discovered as a result of today's lesson, will your group look to invest in mutual funds? Explain.
2. Based on what you have researched, if your group was going to invest in mutual funds, which fund would be your primary investment and why. (Students may wish to write in journals, so as not to give away their investment strategy).

Application

Using **Activity Sheet 3: Selecting and Evaluating a Mutual Fund**, demonstrate how students can research a mutual fund. Show them how this information, found through Internet research, may help them decide where to put their mutual fund investment dollars.

Ask your students: Given what you know now what will be your investment strategy, mutual funds or individual stocks?

Ask your Stock Market Game teams to imagine their portfolios as a mutual funds. What would they call their fund? Ask them to write a brief summary describing their fund and their investing strategy.

Enrichment Activities

Ask your Stock Market Game teams to present the "funds" they created in the Application activity. As a whole class your students will act as a Morningstar-like review system and give an overall rating and risk rating to the "funds" presented.

Answer Key

The questions on the Activity sheets are open-ended so answers will vary. However, you are encouraged to devote time to reviewing student responses as a class.



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