



NAVigator

by Bill Dickneider

Julie was doing her homework on the kitchen table one afternoon and was puzzled by a newspaper's quotes for mutual funds. I don't know why I picked mutual funds for my paper in the first place, she thought. I'm as stuck as this lid, she sighed, while trying to open a jar of peanut butter.

In a Jam

Relax! said a strange voice that made Julie jump. She looked around the kitchen, but there was no one there. Then she saw something she couldn't believe. The butter knife she was about to use for her peanut butter and jelly sandwich was standing on the table and looking right at her.

"I often find myself in a jam," said the butter knife. "So don't worry. I can help you out."

"I can't talk to a butter knife," she said. "What if my friends find out?"

"Don't worry. My lips are sealed. Just tell me what puzzles you about mutual fund quotes."

"What's your name?" asked Julie.

"My friends call me Navigator, the Useful Utensil."

"Well, Navigator, I was looking for the prices of mutual funds in this newspaper," said Julie. "But all I find is something called NAV. What in the world is that?"

"I'm pretty sharp when it comes to investments" said the knife. "So let me spread the answer out for you real smooth. Do you know what a mutual fund is?"

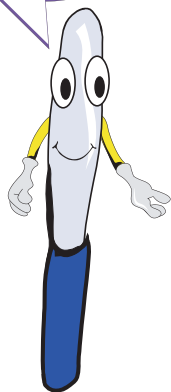
"Sure," answered Julie. "It's an investment company that pools savers' money to invest in lots of stocks or bonds."

"Pretty smart!" said Navigator. "I guess you also know that mutual funds don't trade in the stock market the way individual stocks do."

"I just learned that," said Julie. "Investors trade shares with the mutual fund company, not with other investors."

"Right," agreed Navigator. "So if you

A mutual fund's NAV is \$21.50. What does that mean?

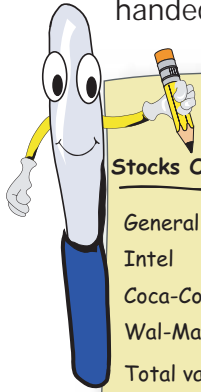


Instead of NAV, some newspapers or web sites use "bid" or "sell."

invest in a mutual fund, you pay the fund its NAV. And if you sell shares, the fund pays you its NAV."

"But that's my question," remarked Julie. "I have no idea what NAV is."

"Let me show you," said Navigator, while writing on a sheet of paper. Navigator then handed the following example to Julie.



Stocks Owned	Stocks' Closing Prices		Number of Shares Fund Owns	=	Current Value of Stock Investment (the fund's assets)
General Electric	\$34	x	5,000	=	\$170,000
Intel	\$22	x	6,000	=	\$132,000
Coca-Cola	\$40	x	4,000	=	\$160,000
Wal-Mart	\$55	x	2,000	=	+ \$110,000
Total value of fund's assets					\$572,000
Fund owes this much for expenses, etc.					- \$12,000
Net value of the fund's assets					\$560,000
Number of fund shares owned by investors					35,000
Net Asset Value per share (NAV)					\$16

It's pretty simple, then," explained Navigator. "Net simply means what you end up with after subtracting all your costs. So in my example, the net value of all the fund's assets is \$560,000. But what's really important to you as an investor is the net value of all those assets *per share*."

"I see," said Julie, looking at the sheet of paper. "I have to divide the total of the fund's net assets by the number of shares investors own. So if I divide \$560,000 by 35,000 shares, I get \$16 of net assets per share."

"You got it," smiled Navigator. "The \$16 is the fund's net asset value. And guess what that's called for short?"

"I get it," said Julie. "NAV is short for net asset value. So the NAV for this fund is \$16.00. Thanks for clearing that up, Navigator."

Julie then grabbed the newspaper lying on the kitchen table and looked at its mutual fund quotes. "Now I understand this column of numbers headed by NAV," she said. "I guess that's what I'd pay if I buy a share of the fund — or receive if I sell a share back to the fund."

"Suppose there's a mutual fund that owns only the four stocks I've listed here," continued Navigator. "The prices I've also listed are the stocks' closing prices at the end of the trading day. What was the total value of the fund's stock investment?"

"It was \$572,000," answered Julie.

"That's the total value of the fund's assets," explained Navigator. "Assets are what a company owns, and the fund in my example owns only four stocks. How much did the fund owe for expenses and other things?"

"Only \$12,000," answered Julie.

"Right," said Navigator. "If you subtract this amount from the fund's total assets, you get \$560,000. That was the fund's net assets at the end of the day."

"What do you mean by *net*?" asked Julie.

"Good question," said Navigator. "Suppose you earn \$20 in baby-sitting but spend \$3 in bus fare. What do you net for the job?"

"I would earn \$17," answered Julie.

"Yes, on that particular day," answered Navigator. "Mutual funds usually calculate their net asset values once a day after the market has closed. If you enter a buy or sell order for a fund during the day, the fund completes it at the net asset value. But in some cases, the fund may add a sales charge for shares you buy — or subtract a redemption fee for shares you sell back."

Julie was busy examining the mutual fund quotes in the newspaper. She would have no problem now completing her homework. When she looked up to thank Navigator, the useful utensil was gone. All she saw on the kitchen table was a jar of peanut butter and an ordinary butter knife next to a jar of jam.

Write Now

Pick one of the following and write a paragraph to explain your answer.

In the table above, Wal-Mart's stock rises to \$62. What is the fund's new NAV?

Find a quote for a mutual fund in a newspaper or on the web and identify its NAV. If you bought the stock, would you want its NAV to change over time?