

Activity Sheet 1: What are Mutual Funds?

A mutual fund investor can make money in several ways:

- Funds earn income from interest or dividends on its investments and distribute it to shareholders in an income distribution (the frequency of distribution depends on the fund).
- Funds produce capital gains by selling securities at a profit, and distribute those capital gains to investors, usually at year end.
- Investors sell their shares of the mutual fund at a higher price than they paid for them.

Types of Mutual Funds

There are many types of mutual funds for investors to choose from: balanced funds, stock funds, bond funds, sector funds, money market funds, etc. Most mutual funds are open-end funds. This means the fund will usually sell as many shares as investors want to buy. If you sell shares of your open-end funds, you sell them back to the same mutual fund pool you bought them from. Sometimes, open-end funds will stop selling shares to new investors when they grow too large to be managed effectively.

There are some mutual funds that have been created with specific social goals. For example, companies with environmentally friendly business practices, companies that are considered “family friendly”, and companies promoting diversity and equity.

Look at the stocks your team has purchased or plan to purchase. What industries do they represent? Is it a broad range of different industries?

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List three mutual fund companies you would consider for your Stock Market Game portfolio. Most financial news sites provide access to a list of “Top Funds” and news specific to mutual fund investors. You can also visit the Top Holdings section of your SMG portfolio.

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