



Fund Seeker

by Bill Dickneider

"My grilled-cheese sandwich stand has been quite a hit," squeaked a mouse named Crackers. "I've been able to save some of my earnings. I think I'll invest it in stocks."

Seek & Squeak

"Have you found some good companies to invest in?" asked another mouse named Queso.

"I'm going to look for some good candidates and then check them out," answered Crackers.

"That's not easy," cautioned Queso. "There are thousands of companies to choose from, so you'd spend a lot of time searching. Then, you'd have to learn about each company to see if it would be a good investment. On top of that, you'd have to keep up with each company after buying its stock. Could you do all that and still run your sandwich stand?"

"Maybe I'll just buy shares of the company that supplies cheese for my sandwiches. I like its cheese. My customers like its cheese. So why not buy its stock?"

"No matter how you slice it, you'd be putting all your savings into one

big cheese ball," said Queso. "What if the company's finances become moldy? You could lose all your hard-earned money. Why don't you diversify by spreading your investments among many different companies and industries? That way, if one stock sinks, you still could have other stocks that are stable or rising. Diversification would reduce your risk."

"Don't be silly," answered Crackers. "I don't have enough savings to buy more than a few stocks. So I can't afford to diversify my investments."

"You could buy shares of a mutual fund, an exchange traded fund, or a closed-end fund," explained Queso.

"I thought Investing in the stock market meant buying individual stocks," answered Crackers. "I'm not even sure what these funds are."

"Take a look at these definitions," urged Queso, while handing Crackers the brochure at the left.



Mutual Fund

An investment company that pools savers' money to invest in a variety of stocks or bonds. Savers trade shares with the mutual fund.

Closed-End Fund

An investment company that issues a fixed number of shares that trade in the stock market.

Exchange Traded Fund

An investment company whose shares trade in the stock market. The fund invests savers' money in a basket of stocks or bonds that closely follows an index of stocks or bonds.

Here's the brochure that Queso handed to Crackers.

"So let me see if I've got this right," said Crackers, looking at the brochure. "These investments are all called funds because they pool investors' savings in a fund. Then, they invest the fund for shareholders in many different stocks."

"Exactly!" answered Queso. "You get a bundle of diversification in an investment you can afford."

Open and Closed

"Mutual funds, exchange traded funds, closed-end funds — it's all very confusing," sighed Crackers. "How do these funds differ from one another?"

"Open the brochure," urged Queso. "It tells more about each one."

Crackers opened the brochure at the right and read the explanations. "Well, mutual funds are different because they don't trade like stocks. If investors want to buy or sell shares, they trade with the mutual fund, not with other investors."

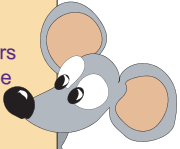
"That's right," agreed Queso. "A mutual fund sells new shares to buyers and buys shares back from sellers. So the number of shares is open-ended, not fixed. That's why mutual funds are called open-end investment companies."

"I guess closed-end funds have their name because they have a fixed number of shares," said Crackers.

"Right," agreed Queso. "Once these funds issue their shares to the public, they don't keep selling new shares or buying back existing ones. The number of shares is closed-ended or fixed, so these funds are called closed-end funds. You trade shares of a closed-end fund with other investors. That's also how you trade shares of an ETF."

"So closed-end funds and ETFs trade just like stocks," said Crackers. "That's different from trading mutual fund shares."

"Mutual funds are also different because trades aren't completed when investors enter them



Mutual Funds

- Professional managers actively buy and sell stocks or bonds based on what they think is best for shareholders.
- A few are index funds, which are not actively managed. These funds track a particular index of stocks or bonds.
- Investors trade with the mutual fund, not with other investors. Trades entered during the day are completed only after the market closes. So shares don't trade like stocks in the stock market.
- The fund sells new shares when investors want to buy and buys shares back when investors want to sell. So mutual funds don't have a fixed number of shares.

Closed-End Funds

- These funds issue a fixed number of shares. Investors then trade the shares in the stock market, just as they trade stocks.
- Closed-end funds are professionally managed. They aren't index funds, like ETFs or index mutual funds.

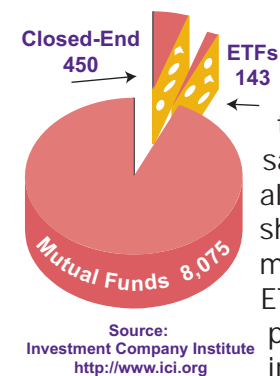
Exchange Traded Funds (ETFs)

- ETFs are index funds that track particular indexes of stocks or bonds. They aren't actively managed.
- Investors trade shares with one another in the stock market, just like stocks.

Here's what Crackers saw inside the brochure.

during the day. They're completed only once a day after the market closes. But mutual funds have been popular because they let investors put their savings in lots of different stocks and bonds. Investors can also sell shares back to a mutual fund whenever they want. There are now more than eight thousand mutual funds, which manage over \$7 trillion of investors' savings."

Number of Funds in 2004



"I guess all three types of funds could make investing a lot easier for me," said Crackers. "If a fund has professional managers who research companies and buy and sell stocks for me, I can spend my time doing other things — like serving customers grilled-cheese sandwiches. That's also true if I buy shares of an index mutual fund or an ETF that follows a particular market index."

"But there are many different funds," said Queso. "So you still have to do your homework when searching for the right one for your investment goals."

Write Now

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

Should Crackers invest in individual stocks or in a fund?

How are closed-end funds different from mutual funds? How are they similar?

How are closed-end funds and mutual funds similar to ETFs? How are they different?