



Funds with Style

by Bill Dickneider

Ella had learned a lot about stocks and bonds. But mutual funds were a different story. So after school one day, she began researching on the web. "How am I supposed to understand all this information," she sighed while looking at a popular site for mutual funds. "There are more styles of funds than styles of shoes."

Thinking Caps

"I can explain," said a voice from her computer. Ella looked carefully at the monitor and then noticed a tiny figure in the corner of the screen. "Howdy," it said. "My name is Explicator."

"That's an odd name," said a surprised Ella.

"Well, my job is to explicate — and that means explain. I'm here to help visitors understand our web site. And I see that you're confused by the many styles of mutual funds here."

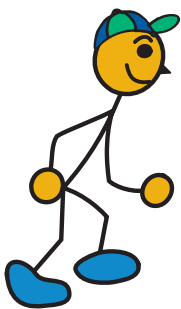
"You're right about that," said Ella. "I know that a mutual fund pools savers' money to invest in lots of different stocks or bonds. It's like the domestic stock funds here on your web page. They invest in stocks of

many U.S. companies. But I have no idea what all these fund styles are. Some funds are large growth and some are large value. Some are small growth and others are large blends. It's all so confusing."

"That's why I'm here," said Explicator. "Let me explain the large and small styles first. These words refer to the size of the companies in the funds. Some funds invest mostly in stocks of large companies, while others have stocks of medium or small companies."

"What makes one company large and another small?" asked Ella.

"Good question," said Explicator. "It depends on the value of all shares that stockholders own. That's called market capitalization, or market cap for short. You calculate market cap



Pick a drawer from my Style File on the next page. Then use the web to find a mutual fund that fits in the drawer. Here are some possible web sites to check:
<http://biz.yahoo.com/funds/>
<http://www.morningstar.com/>
<http://moneycentral.msn.com/investor/home.asp>>

by multiplying a stock's current price by the number of shares stockholders own. Microsoft is an example of a large company. The price of its stock is about \$26 per share, and its stockholders own a total of about 10 billion shares. Multiply its stock price of \$26 by the 10 billion shares stockholders own, and you get \$260 billion. That's Microsoft's market cap."

"A pretty big cap at that," exclaimed Ella. "But when is a company's market cap considered large, small or medium-sized?"

"There's no hard and fast rule," said Explicator. "But large stocks are often defined as those with market caps above \$8 to \$10 billion. Small stocks are often those with market caps below \$1.5 to \$1 billion. Medium-size stocks would be the ones in between. Small company stocks tend to be riskier than those of large companies. Their prices can jump around a lot more, and smaller companies are often newer and more likely to stumble or fail."

Styles in a File

"I see," said Ella. "Some mutual funds invest mostly in large-cap stocks, while others specialize in medium-cap or small-cap ones. But what about these other categories? What are growth funds, value funds, and blend funds?"

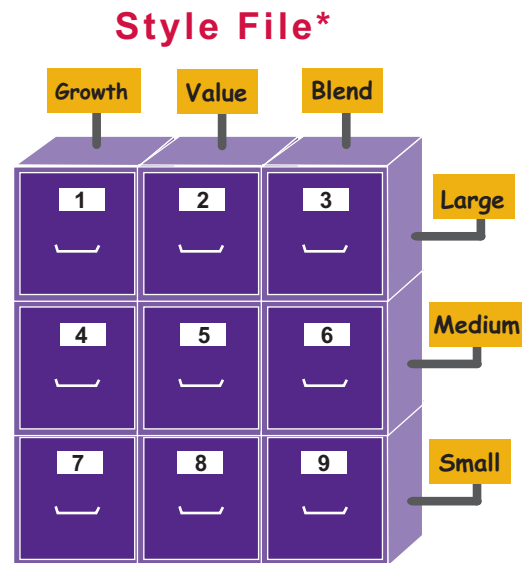
"Growth funds invest in companies that fund managers believe will grow their earnings faster than other companies," said Explicator. "If the companies grow rapidly, their stock prices can rise and provide hefty returns for the funds' shareholders. But growth stocks are often very risky. Why? Because their prices can sink if the companies don't realize the strong growth expected of them."

"Value funds are sort of the opposite of growth funds," continued Explicator. "The managers of a value fund don't pick companies because of their potential for unusual growth. Instead, they look for companies whose stocks they believe are bargains at today's prices. If fund managers are right, the stocks' prices can eventually rise and benefit the funds' shareholders."

"What about blend funds?" asked Ella. "Are these funds that mix both growth stocks and value stocks?"

"Blend funds mix the two investment styles by looking for both growth and value stocks," explained Explicator.

"Large, small, growth, value. There sure are a lot of fund styles," said Ella. "I don't know how I'm going to remember them."



The labels on top show the kinds of mutual funds in each column of file drawers. For example, drawers 1, 4, and 7 contain growth funds. The labels at the right show the kinds of funds in each row. For example, drawers 1, 2, and 3 contain large funds.

*Morningstar, Inc. presents a similar "Style Box" when summarizing mutual funds at its web site, <http://www.morningstar.com>.

"Here's something that might help," said Explicator, pointing to a drawing of file cabinets on the web page. "I call it my Style File. Each drawer in the file cabinet holds mutual funds that follow a particular investment style. For example, drawer #1 holds large growth funds, and drawer #9 contains small blend funds. Click on the drawer that fits your investment style, and you'll find lots of mutual funds inside. I'll be here if you need more help."

"Thanks a bunch," said Ella, as she clicked on the drawer with the least risky investment style. Which drawer do you think that was?

Write Now

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

Which drawer might you pick if you were investing in a domestic stock fund? Why?

Which drawer is likely to have the riskiest investment style? Explain.

Explain the difference between a value fund and a growth fund.