MAINESAVES

Insights From ING

# What Is a Mutual Fund?

**Like hiring a personal portfolio manager**

Investing in the market can be an overwhelming experience. Who has the time or expertise to research all the options available? When you invest with mutual funds, you let someone else do much of the work for you. It's like hiring your own portfolio manager to make your most important investment decisions.

### Get in the pool

For most people, making decisions about the seemingly unlimited investment options that are available can be too much to handle. With mutual funds though, you let a professional money manager make the tough decisions for you.

A mutual fund is an investment vehicle that pools money from many investors and invests in a diversified portfolio of securities that can include stocks, bonds, short-term money market instruments or other assets. If you invest in a mutual fund, you are a shareholder who buys shares of the fund. Each share you own represents a proportionate ownership of the fund's holdings and the income those holdings generate.

### Why mutual funds?

Mutual funds can be a way to invest for your future, and offer many benefits:

- **Professional money management** – Professional money managers research, select and monitor the performance of the securities purchased by the fund. Investment decisions are based on extensive knowledge of market conditions and the financial performance of individual companies and securities.

- **Diversification** – Fund managers spread investments across a wide range of companies and industry sectors to help reduce your risk if a certain company or sector fails. Most investors find it easier to achieve diversification through ownership of mutual funds, rather than through ownership of individual securities

- **Affordability** – Many mutual funds set relatively low minimum investments for initial and subsequent monthly purchases, making them affordable to investors who may not have a lot of money to invest.

- **Liquidity** – While investors can sell (redeem) some or all of their shares of a mutual fund at any time for the current share price, known as the net asset value (or NAV) redemption fees or other restrictions may apply. You should read the prospectus carefully before investing. You can find daily NAVs online or in the financial pages of most major newspapers.

**What's your type?**

Another attractive feature of mutual funds is the variety of funds available, each offering a different investment objective and level of risk. Generally, the higher the risk, the greater the potential return on investment. Most mutual funds fall into one of the following categories:

- **Stock Funds** – Invest primarily in stocks, which represent equity or ownership in a corporation. Stocks have historically produced the highest returns; however, they have a tendency towards greater price swings, which makes them more risky than bonds or money market instruments. Types of stock funds include:
    - *Growth funds* – Invest in stocks that may not pay a regular dividend, but have the potential for large capital gains.
    - *Income funds* – Invest in stocks that pay regular dividends.
    - *Index funds* – Seek to achieve the same return of a specific market index (such as the S&P 500) by investing in all or most of the companies in that index.
    - *Sector funds* – Invest in stocks representing a particular industry segment, such as technology or health care.

- **Bond Funds** – Invest primarily in bonds, which are closely tied to changes in interest rates, i.e., when rates fall, bond prices rise. Bonds are generally considered less risky than stocks and more risky than money market instruments.

- **Money Market Funds** – Invest in money market instruments, which are short-term debt securities (such as CDs) and government securities (such as Treasury Bills). Historically, returns for money market funds have been lower than for stock or bond funds, but they carry less risk.

***It's important to note that an investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although this type of fund generally seeks to preserve the value of your investment at $1.00 per share, there is no assurance that it will be able to do so. While the fund's objective includes the preservation of capital, it is possible to lose money by investing money in the fund.***

Bank certificates of deposit are FDIC insured up to applicable limits and offer a fixed rate of return. Remember, mutual fund yields and principal will fluctuate with market conditions.

**Making money with mutual funds**

When you put your money in mutual funds, your investment value can increase in three ways:

- **Increased value** – A fund's NAV will increase if the market value of the fund's portfolio increases (after deducting expenses and liabilities). A higher NAV means your investment has a greater value.

- **Capital gains distributions** – When a fund sells a security that has increased in price, the fund has a capital gain. At year end, most funds either distribute these capital gains (minus any capital losses) to investors or allow you to reinvest them in the fund.

- **Dividend payments** – A fund may earn income on the securities in its portfolio in the form of dividends, most of which it either pays to shareholders (minus disclosed expenses) or allows you to reinvest in the fund.

### Other considerations

Keep in mind that with mutual funds, investors must pay sales charges, annual fees and other expenses, regardless of the fund's performance. Also, investors may have to pay taxes on any capital gains distributions they receive – even if the fund performs poorly after shares were purchased. All of these factors vary greatly from fund to fund, so make sure you investigate each fund thoroughly before purchasing.

**Mutual funds carry risk including the potential loss of principal.**

**Mutual funds offer an alternative for those investors who lack the time or expertise to make regular and complex investment decisions.**

### How to choose a mutual fund

1. Determine your investment objectives and time frame. Generally speaking, the longer your time horizon, the more risk you can tolerate. For example, if your goal is to have money available to send your child to college in three years, your investment choices would be very different than if your goal is saving money for retirement 30 years down the road.

2. Identify which type of funds match your goals and risk tolerance. Refer to the "What's Your Type?" section for descriptions of the various fund categories.

3. Once you've decided on the appropriate categories for you, you'll need to choose an individual fund within that category. Avoid the common mistake of picking the latest "hot" fund as this year's winner can easily turn into next year's loser. Instead, base your choices on performance over an extended period of time – look for consistency over the past three, five, and 10 years. Consider how often the fund has beat its benchmark, the volatility of its returns, consistency of fund management, investment policies, and variability in returns over time. Bear in mind that past performance doesn't guarantee future returns.

### INVESTMENT OPTION

Mutual funds offer an alternative for investors who lack the time or expertise to make regular and complex investment decisions. By putting your money in a mutual fund, you allow the fund's portfolio manager to make those important decisions for you. Diversification is a well-recognized investment strategy, however, it cannot assure a profit or guarantee against loss in fluctuating market conditions. You should consider your ability to continue investing in up as well as down markets. To learn more about mutual funds and how to choose the right funds for your investment portfolio, contact your ING representative.

You should consider the investment objectives, risks, charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses/prospectus summaries/information booklets contain this and other information, which can be obtained by contacting your local representative. Please read the information carefully before investing.

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