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Senior Honors Project:
Mutual Funds- A Look into Information Available to the Average Investor

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Mutual Funds- A Look into Information Available to the Average Investor

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Abstract

As is evident by its title, this essay will be examining mutual funds. The paper will take a look at a thorough investment process: where individual investors should go to search for information about mutual funds in which they are thinking of investing and some of the data they need to take into consideration. The paper will also debate whether more facts should be readily available to the average investor, and in doing so, it will discuss some of the advantages of financial intermediaries.

Introduction

The timing of this essay is crucial. Over the next few years, the baby boomer generation will be reaching the twilight of their careers, and as a group, they will have a considerable sum of money available to put into a variety of investment products to ensure that they have a happy retirement. The oldest people of that generation are beginning to reach their sixties, while the younger ones are still working hard and accumulating wealth they will be using until they die. The magnitude of the generation's investing power is surprising. According to *USA Today*, the 79 million baby boomers represent \$8.5 trillion worth of investable assets [Chu]. A good portion of this money, no doubt, will end up being put into mutual funds whether through traditional investing, through mutual-fund-backed rollover IRAs, or through some other financial vehicle.

Even prior to taking into account how much money the baby boomers may end up putting into mutual funds, it should be noted that the mutual fund business is already enormous. Some might be surprised to learn that it presently accounts for a quarter of all U.S. equity [Lauricella]. Every indication is that mutual funds will continue to prosper and attract more of the country's assets, especially with the impending baby boomers' retirement.

Definitions

An investment company is one that primarily is in the business of investing, reinvesting, or trading various types of different securities. The Securities and Exchange Commission, or the SEC, regulates investment companies at the highest level. They must be registered under the Investment Advisers Act of 1940 (often called the Investment Company Act) and must comply with the Securities Act of 1933 and the Securities Exchange Act of 1934. The SEC has also put into place a variety of regulations along with specific additions and amendments to control and regulate investment companies [SEC Package].

Investment companies are distinguished as either management companies, unit investment trusts, or face-amount certificate companies. Two types of management companies exist: open-end and closed-end. The major difference between open-end and closed-end is whether the companies offer redeemable securities. Open-end investment management companies are the ones that offer redeemable securities, and mutual fund companies, by their nature, fit into this category [SEC Package]. Thus, open-end investment management companies may be referred to as mutual fund companies.

This paper will deal specifically with mutual fund companies and the products they provide. It will not be offering information about closed-end funds, Unit Investment Trusts, or hedge funds except when information about those types of investment vehicles relates directly to the discussion of mutual funds.

A mutual fund company is one that takes money from a number of different investors of all magnitudes and puts it into different types of securities such as stocks, bonds, short-term money-market instruments, etc. The combined securities that the mutual fund owns may be referred to as the portfolio. Each share of the mutual fund represents someone's ownership in proportion to the fund's pooled assets and the income that may come about because of the ownership of these assets [SEC Introduction].

When someone buys a share of a mutual fund, it is purchased from the mutual fund company. Shares of mutual funds are not available for purchase on any type of secondary market like the New York Stock Exchange. The price they will pay is the fund's per-share NAV (net asset value) plus fees. As was previously alluded to, one defining feature of a mutual fund is that the shares are redeemable. Thus, when the investor decides he no longer wants to hold a share of a certain mutual fund, he sells it back to the issuing company. This fact explains why mutual fund shares are not available on the secondary market. To accommodate new investors, mutual fund companies usually simply create and sell new shares of the fund for a new investment, providing that the fund is not too large in the minds of the individuals running the fund. These fund managers are financial experts registered with the SEC [SEC Introduction].

Advantages and Disadvantages of Mutual Funds

The SEC's website lists the following factors as advantages to investing money into a mutual fund:

- Professional Management- Experts that usually have years of experience are the ones who are deciding where money is invested.
- Diversification- Mutual funds offer instant diversification. This feature gives the investor piece of mind knowing that they have protection if a certain company fails or if a certain industry/sector has a period of negative performance.
- Affordability- Many mutual fund companies exist that have no minimum investment so that they can tailor their services to either large or small investors. Someone does not have to have a relatively large amount of money to be able to take advantage of mutual funds.
- Liquidity- Shareholders can easily sell their shares of mutual funds whenever they want so that they can obtain cash. The selling price per share will be determined by the current NAV [SEC Introduction].

Clearly, definitive advantages exist in mutual fund investing. That assertion is not to say that there are no disadvantages, though. Mutual funds charge fees, whether they be for sales charges, annual fees, or other expenses. These fees are often charged regardless of the performance of the fund. In addition, some investors do not like the lack of control that is inherent in mutual funds since the individual investor has no say in which companies are held within the fund. Finally, avid market watchers are sometimes faced with price uncertainty. A mutual fund's NAV is only required to be calculated once every day, and usually this calculation occurs after the market has closed [SEC Introduction].

Where to Look for Information

Assume that someone completely understands what a mutual fund is and that they have decided the advantages and disadvantages match what they are looking for out of their investment. The next step, of course, is to figure out which funds in which to invest their money. The SEC's website contains a directory of all of the mutual funds available for purchase [SEC Directory]. This list might be a good place to start, but only that. At this point in the investing exercise, a responsible investor has much more research to do.

Traditionally, according to Laise, it has been fairly difficult to find much good information about the fund itself and the person/people running it. In the past, an investor might have been able to locate a very short biography of the manager(s) and some data on how the fund has been performing. In light of various recent scandals within the industry, though, regulators are taking a more proactive approach and requiring that certain information be readily available to potential investors. The downside to this availability of data, though, is that it is usually difficult to find in lengthy official documents that are hard to read for the average person [Laise October].

The SEC's website lists some of the key documents that prospective investors should try to locate.

- Prospectus- The prospectus is the most comprehensive source of information about a particular fund and the people running it. In it, an investor will find data pertaining to fees, expenses, objectives, strategies, risks, performance, pricing, etc. When someone purchases shares of a fund, they are required by the SEC to receive a copy of the prospectus [SEC Information]. A responsible investor will look for important information contained within the prospectus before actually putting their money into the fund.

The SEC's website also details some of the things people may be able to find within the prospectus in addition to that mentioned above.

- Manager information- The managers are identified, and their roles are described.
 - Organizational information- This data gives information about the company itself and how to purchase and sell back shares.
 - Date of issue- Prospectuses come out once a year, so an investor should be certain he or she has a recent copy. This date should be on the front cover.
 - Risk/Return Bar Chart and Table- This table provides a look at the past performance of the fund itself and compares it to an appropriate index.
 - Fee Table- This table examines the fees associated with a particular fund and shows the costs associated with a \$10,000 investment over a 1-, 3-, 5-, and 10-year period.
 - Financial Highlights- Near the end of the prospectus, an investor can find various information about the fund's performance and a look at some key ratios [SEC Prospectus].
- Profile- Though funds are not required to provide a document called a profile, some choose to do so. A profile basically just hits some of the high points from the prospectus [SEC Information]. If provided, this document can be valuable to prospective investors because it can serve as an easy way to compare similar funds.
 - Statement of Additional Information (SAI)- These documents are required by the SEC, but mutual fund companies do not have to provide them to their shareholders except upon request. The SAI contains information that goes above and beyond what is contained in the prospectus. It goes into more detail about the history of the fund, its managers, policies, past performance, etc [SEC Information].
 - Shareholder Reports- These documents are basically an update of financial information and the fund's portfolio. They are required to be sent to investors on a bi-yearly basis and are current as of the date of the particular report [SEC Information].

All of these documents can be obtained by communicating with the investment company by phone, by writing, or by visiting their website. A prospective investor can also get the documents from a broker. In addition, they may access the SEC's EDGAR database or contact the SEC by phone or email [SEC Information]. In order to complement the data available in the official documents, investors may also find benefit in researching various mutual funds on websites such as <http://www.morningstar.com> and <http://finance.yahoo.com>.

What to Look For

Once an investor gathers the correct documents about the funds they are considering for investment, they must carefully scrutinize all of the information, pulling out key points. According to the SEC, there are three main ways that a fund can earn its shareholders money: dividend payments, capital gains distributions, and increased NAV [SEC Introduction]. Below is a summary of some of the data that should be of highest priority when the investor is trying to achieve any combination of these three money-earning principles.

- Type of fund- A variety of different types of mutual funds exist, but they can be split into three basic categories: money market funds, bond funds, and stock funds.
 - Money market funds- Money market fund managers invest in high-quality investments that are short-term and government in nature. The advantage to money market funds is that they have very little risk. They are designed to have a NAV of \$1/share. While investors can lose money with this type of fund, it is very rare. The main risk associated with money market funds is inflation risk. If inflation increases at a higher rate than the money market investment, the amount of money someone has invested in a money market fund can go down in relation to its original spending power.
 - Bond funds- As is not the case with money market funds, regular bond funds are not required by the SEC to invest in high-quality, government-backed debt. Bond funds can invest in a variety of different types of bonds, and so investors may see a big discrepancy between risk and return through this category. Three main risks are associated with bond funds:
 - Credit risk- This risk occurs because companies that the fund invests in may fail financially, thus rendering them unable to pay back their debts.
 - Interest rate risk- This risk occurs because of the simple fact that the market value of a bond goes in the opposite direction of the interest rates. The risk is enhanced in funds that focus on long term investments because the rates can change considerably over time.
 - Prepayment risk- This risk occurs because of the chance that bonds may be paid off early. If rates go down, bonds may be called so that the creditor can issue new debt at a lower rate. If this action happens to part of the fund's portfolio, their new investments may not have as high a yield.
 - Stock (equity) funds- These funds invest in equity holdings. The main risk associated with stock funds is that of market risk, which would mean that the per-share price of the stocks in the portfolio go down. There is a variety of different types of equity funds, or styles. To be associated with a certain style, a fund must have 80% of its assets in that type of investment. A few styles are explained below:
 - Growth funds- These funds focus on companies with the potential for large capital gains.
 - Income funds- These funds look for stocks that pay relatively high dividends.
 - Index funds- They are modeled after a specific index.

- Sector funds- These funds specialize in stocks that are all part of the same industry sector [SEC Introduction].
 - Value funds- These funds look for companies that have been underperforming. Value investors attempt to locate stocks that are out of favor with many investors but still have strong underlying financials.
- Past performance- Past performance is probably the easiest and most common way people choose to compare mutual funds, but that criteria can be dangerous. The SEC is quick to tell investors that past performance is no guarantee for future performance. Just because a fund has done well in the past does not mean that it will do so in the future [SEC Introduction]. Morgan Stanley Financial Advisor Corey Wilson explains that many investors can find some value in looking at the past performance as long as they take a long-term approach to their research, and even then, it should only be part of the equation. When considering past performance, investors should look at and how funds have performed over at least a 10-year period. That way, they can see how the funds have done relative to others during sustained periods of positive and negative trends in the market [Wilson].
- Age and size of the fund- Younger funds may start out very well because they have a relatively small amount of investments in the portfolio. As they age, though, they will take on more investments. Over time, it will become more difficult for the fund managers to sustain initial performance figures [SEC Performance]. Taking this fact into account, the average investor may want to look for well-established funds with a proven track record.
- Risk/Volatility- These two terms go hand-in-hand in the investment world. Funds that look for higher returns have to take on more risk to be able to achieve it [SEC Performance]. If an investor is unwilling to take a certain amount of risk, or if they cannot afford to lose a sizable amount of their investment over the short-term before gaining it back in the future, they may want to look for stocks with less risk/volatility [SEC Introduction].
- Fees- A mutual fund uses fees that it charges to its investors in order to cover its costs. Fees can be split into two different categories as explained below.
- Shareholder Fees
 - Sales charge (load) on purchases- This fee is also called a front-end load. It refers to the amount of money an investor has to pay the mutual fund company upon investment in the fund.
 - Purchase fee- Additional fees incurred to the investor on the front end that are used to cover the fund's costs that result from the purchase
 - Deferred sales charge (load)- This fee is also called a back-end load. It refers to the amount of money an investor has to pay the mutual fund company upon redemption of shares.
 - Redemption fee- Additional fees incurred to the investor upon redemption that are used to cover the fund's costs that result from the redemption

- Exchange fee- Some funds charge fees to shareholders who exchange their holdings to another fund within the fund family.
- Account fee- Refers to fees that mutual fund companies charge to cover maintenance costs of the accounts.
- Annual Fund Operating Expenses
 - Management fees- These fees are paid to the fund manager out of the fund's assets.
 - Distribution fees- These fees are paid out of the fund's assets to cover marketing expenses. In addition, they are paid to brokers and others who sell the funds. The cost of printing prospectuses and other materials also are covered by this fee. They are sometimes referred to as 12b-1 fees.
 - Other Expenses- These expenses basically covers anything that does not fall under the first two categories: legal expenses, accounting expenses, etc. [SEC Introduction].

The total annual fund operating expenses is an important number to look at, especially in relation to the total fund assets. This ratio is often called the expense ratio. Even a small difference in an expense ratio can mean a big difference in the overall performance for the individual investors of the fund [SEC Introduction].

Once someone has gathered all of the information about the fees associated with the mutual funds in which they are thinking about investing, the SEC offers investors a mutual fund fee calculator [SEC Calculator]. This tool, or one like it, that allows investors to compare the cumulative effect that fees have over a period of time can be very valuable to people looking to compare funds and the costs associated with them.

Investors may want to note that according to Hoffman, another type of fee exists, though rarely. It is a performance based fee that can be charged in lieu of some other fees. Only 348 of all of the thousands of mutual funds utilize performance fees. Some investors prefer this type of fee because it is an incentive for managers to perform well. If the fund has a poor year, the fees that management receives will not be as high, and investors will not have to bear as much of a cost in paying fees after a sub-par year for their investments. While some experts think that performance fees work to align the management with shareholder objectives, the SEC is looking at eliminating them. This idea stems from some accounting mistakes that were made that incorrectly calculated some of these fees for a few mutual funds [Hoffman].

- Turnover- This concept is one that examines how often a fund changes its portfolio. It is expressed in the form of a percentage and is calculated by comparing the value of the securities that were bought and sold during the year to the total assets in the fund. According to Laise, for example, if a fund has a 100% turnover, it holds all the pieces in the portfolio for an average period of one year [Laise August].

Turnover rates, which according to Gullapalli, have been falling industry wide over the

last few years, can mean a few different things for investors. Gullapalli writes that often a high turnover is not a negative aspect of a fund. It can simply mean that it is more aggressive. Also, turnover rate can be deceiving in that it can be affected by the portfolio adjustments fund managers have to make in order to meet both the purchase and redemption requests of individual investors [Gullapalli].

Often, turnover will create tax implications for investors of a fund, according to Laise. She gives examples of situations where certain funds, usually after a manager change, sold a large portion of their assets and thus created high turnover ratios. When this type of event happens, individual investors bear the brunt of the tax effects that are created through a large amount of capital gains distributions [Laise August].

Morgan Stanley Financial Advisor Corey Wilson equates turnover to a sort of embedded fee. He says that when he advises his clients on the positives and negative of both current and potential mutual fund investments, he calculates that for every 100% of turnover a fund shows annually, it will add about 1.6% worth of expenses, independent of the expense ratio [Wilson].

Mutual Fund Managers

In addition to looking at statistics surrounding mutual funds, many experts believe that it is just as important to look at the managers themselves. After all, they are on the ones who are actually investing the money. In a *Wall Street Journal* article by Elanor Laise, Jeff Tjornehoj, senior research analyst at Lipper, says, "It's critical to look at the portfolio manager. Somebody is there operating the machinery and making it go, and in bad cases, driving it into the ground"[Laise October].

According to Laise, thanks to a variety of SEC regulations, it has become easier to find out about the managers themselves. The mutual fund industry received a black eye of sorts in recent years. A scandal occurred that basically involved investment companies that gave market timing benefits to larger investors, and the cost was felt by smaller ones. As a result, the SEC has required funds to reveal more information about the people running the funds and their strategies. This information is available in the prospectus and is enhanced by the SAI [Laise October].

In the past, it might have been difficult to find out about all of the people working with the management to invest the shareholder's money. Now, each individual member of the teams must be introduced in the prospectus. Once an investor finds out information about whom the managers are, they will be able to see how long the advisors may have been with their current fund and where they may have worked previously. Instead of simply looking at performance numbers from the managers in the past, many experts may suggest that more meaningful data can be obtained when comparing them to their peers [Laise October].

As was alluded to above, not all mutual fund managers work by themselves. Often, 65% of the time, according to Morningstar, mutual funds may be run by a team of investors. The SEC now

requires teams to designate a lead manager. Information pertaining to the leader can be found in a fund's prospectus. That person may end up making the final decisions about which securities end up being part of the portfolio [Laise October].

Laise writes of a study conducted by researchers at Babson College and the University of Massachusetts Amherst. Their data reveals that mutual funds run by teams have very similar performance figures to those run by individuals. A difference is seen in the fact that team-run funds often show less risk. In addition, they may be less expensive as well, considering that they do not have to pay a big-name manager who can command a high fee [Laise October].

Additional SEC regulations also require mutual fund companies to disclose, in the SAI, how much of the manager's money is invested in the fund. The logic is that if a person believes enough in the fund that he or she is running, they will see it as a fit investment for themselves. Though the investor is not able to find out how much of a manager's overall net worth is invested in a fund, they can get an idea of the raw figure. In a study conducted by researchers at the Georgia Institute of Technology, London Business School, and the University of South Florida, funds that had ownership by the management outperformed their peers by earning 1.4% annually as compared with a baseline of 0.3% in funds that did not have management ownership [Laise October].

The SEC also requires investment companies to reveal how managers are paid. Laise advises caution when speaking about companies that compensate managers based on the fund's overall assets. This practice, she writes, can turn the manager's attention away from the portfolio itself. Instead, they may focus on marketing. Some experts think that a better strategy may be to pay the managers based on the actual performance of the fund. If this practice occurs, they have enhanced motivation to provide investors with a successful portfolio [Laise October].

A growing trend in the mutual fund world is one where money managers are often responsible for multiple funds, including hedge funds, and the SEC requires this information, if applicable, to be included in the SAI [Laise October].

Experts have differing opinions on the so called side-by-side management. People who defend the strategy say that if the practice were to be disallowed, some of the best mutual fund managers might be lost to the more lucrative hedge fund world. Critics claim that two-timing managers might favor the interests of his or her hedge fund clients over those of the mutual fund [Laise November].

The managers, critics say, could potentially favor the hedge fund in a variety of ways: selling shares of a stock in a hedge fund before a mutual fund when the prices are more likely to drop, investing in an IPO for hedge fund clients before a mutual fund, holding a short position in a hedge fund and a long position in a mutual fund, etc. [Laise November].

In 2003, the US House of Representatives approved a bill that would have banned anyone from running a mutual fund and a hedge fund at the same time. The plan, though, was never enacted. Currently, the SEC has no regulation against managers that are involved in mutual funds and

hedge funds at the same time. The only requirement is that the investment company must make a note of such a situation in its SAI [Laise November].

Conflicting data exists on the subject of two-timing managers. Researchers at William & Mary's Mason School of Business and Penn's Wharton found that two-timing managers were not as effective as their peers, coming up short in performance by more than 1.2% annually. Conversely, a study conducted by Loyola University, the University of Illinois, and The University of California Irvine showed just the opposite. In their study, the managers who ran both a mutual fund and a hedge fund outperformed their counterparts by a percentage of 1.5% annually [Laise November]. Overall, since no undisputed evidence exists one way or the other, a multi-tasking manager is something to be considered when investing, but it should not be the end all in deciding upon a particular mutual fund.

After looking at all the above factors about mutual-fund managers, it should be recognized that while all managers are experts, some may be more experienced than others, have better performance records, or get paid differently. The key to all information about managers, though, may be an intangible one that represents a combination of the above characteristics. When looking at an all-encompassing view of mutual fund managers, investors should search for those who have best demonstrated throughout their career that they see great value in aligning themselves with shareholder interests.

Time to Invest- Should it be an Easier Plateau to Reach?

Finally, after gathering all the pertinent documents, sifting through them to obtain key information, and using the data to analyze the funds and managers, even the most cautious investor should be ready to make mutual-fund investments with confidence. This is not to say that the process has to be so involved. Certainly, good mutual fund picks can be based on a variety of factors or a combination thereof. However, if someone wants to be as thorough as possible before turning his money over to a mutual fund company, a process like the one outlined in this essay could literally take weeks.

Some of the steps in the process above may be made easier if an individual has a premium account with certain third party sources, such as www.morningstar.com. Also, if an investor already has an account with an investment company, he can usually find information about that company's other offerings with an enhanced degree of ease. Some might argue that these informational avenues are not good enough. These people might think that the mutual fund world is in need of change that would stem from enhanced regulation on information sharing. Through new regulations, they would argue, the process of investing in mutual funds would become much easier and smoother for the novice investor. But, there would certainly be no consensus selection on what actually needs to be done.

Possible solutions could run the gamut from forcing investment companies to offer a more complete prospectus to all potential investors that is expanded to include everything in the SAI, all the way to requiring full transparency through free proprietary websites, that give daily

updates on the fund's managers, complete portfolio holdings, etc. Some people might wonder what benefit this information sharing might have for the consumer.

When looking for a parallel and for a definition of transparency, consider the automotive industry. Buying a car is a large purchase for a lot of people, one in which many choose to do a heavy amount of research. Similarly to when they are considering which mutual fund in which to invest their money, when doing their research, people are looking for the highest amount of what they consider to be desirable characteristics (quality) in the vehicles. And, they are looking to avoid paying too much of a premium for quality if there are other choices that would yield the same desirable characteristics at a lower price (low cost).

Previously, before people were able to make a truly informed decision about purchasing a vehicle, they had to go around to different dealerships, gather marketing brochures, talk with different salesmen, locate a consumer magazine that compared the car with others, etc. Now, in a world of digital information sharing, online research provides numerous tools where they can find out as much as they would ever want to know about most all vehicles. They no longer have to sift through mountains of brochures, listen to pressure-packed salesmen, etc. to get information about the vehicles. Thus, their informed decision is much easier to reach. Whether the information is from the manufacturer of the vehicle itself or from a trusted third party is not relevant. The key is that they are able to attain a plethora of reliable information about all the aspects of different vehicles before they ever go to a dealership and take a test drive. This concept may be referred to as transparency.

Some might argue that a world of transparency would also be of great benefit to the mutual fund industry, just like the automotive one, and that it could be attained through additional SEC regulations. Transparency might seem like a nice idea at first glance, but giving too much information to those who do not know how to use it can be dangerous. Financial advisors (who will be explained below) have information about potential investments, including mutual funds, at their fingertips because they have been trained. They know how to use the information correctly and how to make specific types of investments work together with others. If people can get a wealth of information on mutual funds through very little research, then the whole idea of putting money into a mutual fund may start to appear to be something that is not worth heavy consideration before action. The truth, of course, is just the opposite. Unlike those people purchasing a car, individuals investing in mutual funds are trying to secure money that can determine their whole way of life once they retire.

The concept of transparency in mutual funds may also carry with it tangible costs in addition to the dangers already discussed. Transparency might reveal to investors that nothing in this world is free. Costs associated with a transparent mutual fund industry would, no doubt, be tremendous. As was already discussed above, a mutual fund's costs are covered through fees. A fully-transparent world, as compared to the one that is in place today, would create many more costs for the investment companies that would then be passed on to shareholders. Through transparency, investors could be much more easily informed before making their investment decisions, but all of their choices now would include much stiffer fees that would, over time, eat away at their returns, regardless of which fund(s) they choose. Surely many investors, especially

those that are happy with their current investments and the information that is readily available to them, would resist such change.

Financial Services Industry

The financial services industry, made up of financial intermediaries, is one group that would probably resist a change in the current policy that would yield more transparency. According to 2006 financial data from <http://finance.yahoo.com>, three of the largest of these types of companies, Morgan Stanley, Goldman Sachs, and Merrill Lynch had an average annual revenue of last year of over \$32.5 billion and an average net income of more than \$7 billion [Yahoo].

One of the ways that financial intermediaries make their money is when people come to them for financial advice. With the financial industry as it is today, investors can rely on advisors to provide them with the information that would otherwise be difficult and painstakingly tedious to find. According to Benjamin, financial advisors ideally give their clients trustworthy guidance on both individual investments as well as an overall financial plan [Benjamin]. Financial advisors have access to a variety of tools when examining mutual funds: research reports that can reveal more in-depth information, financial software to compare hypothetical investments, etc. These tools make the research much easier for someone who is already familiar with the different funds and managers. In theory, if more information were to become available to the average investor, less people would utilize the advisors and would do their own investing, thus opening themselves up to the dangers described above.

This phenomenon, according to some would not be such a bad thing. According to researchers at Harvard Business School in Boston and the University of Oregon in Eugene, financial advisors can actually have a negative effect on client portfolios. The study looked at mutual fund investments made by individuals and compared them to those made by financial advisors over the same period. The advisors managed a (net of all fees except those associated with loads) return of only 2.9% annually as compared to the individual investors' 6.6% [Benjamin].

In Benjamin's article, though, many people question some details. It is suggested that many of the advisors in the study are commission brokers instead ones who charge a fee [Benjamin]. If this were true, it would mean that advisors in the study may make different amounts of money according to which funds are chosen rather than having their pay be based on the overall amount of assets a with which a client entrusts them.

Certainly then, people should exercise caution in selecting an advisor. Investors need to research their potential advisors, just as they would a potential investment, although the process is much simpler. A few key factors to recognize are:

- **Fee-based approach-** Investors should look for advisors who are paid according to the amount of assets under management rather than those who are paid varying amounts for trades and different types of investments. Often, according to Corey Wilson, when talking about mutual funds in a fee-based approach, advisors will be able to waive all

normal sales charges associated with shareholder fees [Wilson].

- Complete financial plan- Investors can find great value in using financial advisors who are willing to create an all-encompassing financial plan for their clients. Benjamin writes, “Ultimately, the holistic focus on planning and helping clients stay the course should be the financial intermediary’s greatest strength” [Benjamin]. Financial advisors can recommend mutual funds based not only on all of the qualities discussed in this paper but can also illustrate to their clients how they fit into an overall diversified portfolio that is developed to provide a certain amount of return while taking on only a calculated amount of risk.
- Relationship- Good financial advisors will be there for their clients at all times, not just when they are trying to sell something. In Goldberg’s article, he quotes financial advisor Kirk Kinder who says, “Coaching people through some of the difficult times is one of the most important things we do” [Goldberg].

Conclusions

This paper has discussed where individual investors can retrieve information about mutual funds and has detailed some of the data that investors might find most useful. In addition, it has debated whether more information should be readily available and has looked at the financial services industry as an alternative.

In conclusion, individuals who decide to invest their money responsibly in mutual funds by taking a thorough approach to their pre-investment research face a daunting task. The key, however, is that through SEC regulated documents and additional (often free) third party websites, an investor should be able to find all the information they need to feel confident about their investments and to find long term success. While a world of transparency surrounding mutual fund information sounds ideal on its face, it could pose a danger and would come at great costs to shareholders. And, if someone is either unwilling to do thorough research (due to time constraints) or is incapable of performing the necessary steps (due to lack of confidence in themselves, lack of resources such as internet access, etc), responsible members of the financial services industry are there to offer holistic investment plans. By taking advantage of mutual funds among other tools for their clients, these financial advisors can provide the necessary assets to help ensure a worry-free retirement.

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Wilson is a financial advisor for Morgan Stanley in Knoxville, Tennessee. He wants to express that factors can be different for each investor and that comments tied to him in this essay are meant only to give general information. Individual answers for varying circumstances are only available on a case-by-case basis.

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