

Activity: Pairs

⌚ 25 MINUTES

Materials: Course materials, access to the internet, and the activity handout

Objective: The purpose of this activity is for students to be able to assess a mutual fund by reading its prospectus.

STANDARD Saving and Investing Standard 4:

Describe how to buy and sell investments.

- Compare the investment objectives and historical rates of returns in two mutual fund prospectuses.

Reading a Prospectus

Procedure

Each of the items listed is important information to look for when selecting a mutual fund.

Explain each item by using the handout to show how each item appears on the sample prospectus.

Then hand out the student activity sheet and have each student research a mutual fund. There are many websites that can be used (yahoofinance.com, msnmoney.com, morningstar.com, cnnmoney.com) to locate the information.

Answers

- 1 Fund Objective:** What type of fund is it? (For example, Growth, International, etc.)
- 2 Fund Manager Experience:** How many years of experience has the manager had with the fund? Sometimes this is listed as tenure.
- 3 Fund Investment (What is the fund invested in?):** Listing of the top companies the fund is invested in.
- 4 Historical Performance (Rate of Return):** Look for a minimum five-year return.
- 5 Costs of Investing:** What are the fees and expenses?
- 6 Turnover Ratio:** A measure of the fund's trading activity. This measures the percentage of holdings that have been "turned over" or replaced with other holdings.
- 7 Risk Ratio (Return Profile):** Compared to other funds in its category, what is the risk? If it is a growth fund, it is compared to other growth funds.
- 8 Minimum Investment:** How much do you need to open an account?

NAME: _____ DATE: _____

Reading a Prospectus

Pick a mutual fund and examine its prospectus. Locate each item listed below, and then record the information in the space provided.

Name of Fund: _____ Ticker Symbol: _____ Website Used: _____

1 Fund Objective:

2 Fund Manager Experience:

3 Fund Investment (What is the fund invested in?):

4 Historical Performance (Rate of Return):

5 Costs of Investing:

6 Turnover Ratio:

7 Risk Ratio (Return Profile):

8 Minimum Investment:
