

Fundamentals of Money Management

The Securities Market



In the prior article we discussed The Mutual Funds Market. In this article we will finish this series on Mutual Funds Rating Agencies. There are some preliminary things you must do before you start throwing money into the financial markets. Not doing some basic homework can cost you a lot of time and money.

Mutual Funds

Things to do prior to investing in a Mutual Fund

Take a Financial Retreat: Take a time out to read a review of a fund's investment performance from an independent rating agency. You should also read a "Prospectus" of the mutual fund(s) you want to invest in.

A Sample of How Mutual Funds Rating Can Look

Mutual Funds: Ratings			
Morningstar.com		Valueline.com	
Uses a risk-adjusted performance rating system		Uses a computerized model	
Top 10%	*****	Highest Rank	1
Next highest 22.5%	****	Above-average rank	2
Middle 35%	***	Average rank	3
Lower 22.5%	**	Below average rank	4
Bottom 10%	*	Lowest rank	5

All Mutual Funds have ratings agencies that give you an evaluation of their investment performance history. Each rating agency has its own unique method of ranking mutual funds. The two most visible rating agencies are Morningstar and Valueline. There are many other rating agencies like Lipper, Zacks, Barron, Bloomberg, Forbes, Kiplinger, and U.S. News, which can also provide you with information on the many mutual funds in the marketplace. Which one you choose is your choice.

Your Plan Administrator can tell you who they use as their rating agency. When looking up ratings for a mutual fund, the rating agencies should tell you the following:

What securities are held in the fund

The Mutual Fund's Professional Management Team:

- Where they got their investment education.
- How many years' experience do they have.
- History of their working background.
- Years in the investment business.
- Years with this firm and/or other firms
- What their record of accomplishments are in terms of investment performance for the past, 1, 5, and 10-year periods (if they have been together that long).

You can subscribe to Morningstar and Valueline via the internet, or you can go to any public library and look them up. Depending on your tax implications, most individuals in the public sector use Defined Contribution Plans over traditional Individual Retirement Accounts and other plans due to the Pre-tax saving associated with your take home pay.

When you invest in a Defined Contribution Plan, you will find many choices to choose from. You can also invest directly into a mutual fund or buy individual stock through a brokerage firm, a banking institution, or on-line investment company.

In our next article we will discuss the Prospectus.

By Robert L. Woods, M.B.A. is the author of “A Beginners Guide to Wealth Building - Defined Contribution Plans” and “My 1st Investments Coloring Book” which can be obtained from my website: www.ifiecorp.com.

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