Fundamentals of Money Management

The Securities Market

In the prior article we discussed The Mutual Funds Market. In this article we will discuss "How to Read a Mutual Fund Performance Report". As you begin investing you need to understand how your portfolio is doing in terms of its "Return on Investments (ROI)".

How to Read a Mutual Fund Performance Report

Your Defined Contribution (DC) Plan provides you with Quarterly, Semi-Annual and Annual Investment Performance Reports. It is imperative that you read them, understand them and be prepared to make the annual adjustments to meet your future retirement objectives.

If you feel the need for professional help, do not be afraid to ask. You can start with your Plan Administrator, your bank, a Certified Financial Planner or your stockbroker. **Your biggest risk is not asking questions in understanding the growth of your portfolio.**

Below is a sample of a Quarterly Investment Report. Included is an explanation of each column in the report. Take the time to familiarize yourself with it. You may need to go on to the internet (or purchase my book) for a glossary of the terms and descriptions in the report.
Nearly every investment report contains the same elements:

- Fund Name
- Reporting Period (Date)
- Quarterly Return (Past 3 months)
- Year-to-Date Returns (Calendar Year-to-Date)
- 1-year Return
- 3-year Returns
- 5-year Returns
- 10-year Returns
- Percent of expenses (The percentage spent on expenses for every $1,000.00 invested)

Special Note: Index Funds are passively managed. All other funds are Actively Managed.
Reading the report is simple and are the terms are commonly used in most mutual fund reports.

A	B	C	D	E	F	G	H
	Investment Fund Performance Report as of : _____ **Annualized Returns (%)**						
Fund	**Quarterly Return (%)**	**Year to Date**	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Net Expenses per $1,000 Investment**
Asset Allocation Fund (Conservative)	1.35	1.35	4.00	4.35	3.75	N/A	1.25
Bond Index Fund	-0.15	-0.15	3.40	5.20	5.20	5.78	0.50
Large Cap Index	10.60	10.60	13.80	12.60	5.62	12.60	0.03

S&P 500 Index	10.70	10.70	14.50	12.70	5.80	12.80	
Mid Cap Fund	13.50	13.50	17.00	15.00	9.60	N/A	0.60
International Index Fund	3.00	3.00	7.10	2.40	-3.00	3.00	1.20
S&P 600 Small Cap Index	12.45	12.45	15.40	13.00	7.85	13.85	0.70

Column A -The Fund Name. There many mutual fund categories to pick from. The names are displayed in this column. Here is a short description of some of them:

- **Asset Allocation Fund** allocates investments based on a Top-Down Economic Analysis. This means the manger evaluates the economic climate: interest rates, inflation, and economic indicators such as politics, employment, consumer prices for food and energy. The information is used to determine which sectors will perform best in a given economic environment.
- **Bond Index Funds** can be active or passively managed. The index includes U. S. Government Securities (Treasuries and Municipals), Mortgage and Asset-Backed securities, as well as Corporate Securities. The index is also used as a benchmark to compare returns of other active bond funds.
- **Large Cap** investments are in companies that have valuations of $10 billion or more. They are the largest companies in the world and are dominate in their industry.
- **S&P 500** (Standard & Poor's 500) is a stock market index based on the market capitalizations of the 500 largest companies having common stock listed on the New York Stock Exchange or the National Association of Securities Dealers Automatic Quotation System (NASDAQ).
- **Mid-Cap** investments are in companies that have valuations between $2 billion and $10 billion. These are established companies that tend to grow.
- **International Index Fund** is a name for investing in non - U.S. companies. Most fund managers use the Morgan Stanley Capital International (MSCI) as the benchmark for measuring the performance of major international markets such as Europe, Australia and the Far East (EAFE).
- **S&P 600 Small Cap Index** are small capitalization companies with valuations between $300 million to $2 billion. This index is designed to measure the performance of the small business sectors of the economy.

Column B represents (as a percentage (%)) the most recent ROI for the past three months (one quarter). If the report is dated for the period ending March 31st, it will match the Year to Date returns. Returns are always in arrears, meaning that the period reported is for the past three (3) months.

Column C represents (as a percentage (%)) the Year-to-Date (YTD) return on investments. As the year goes forward, the YTD returns will vary according to how well the fund is doing. If the numbers are similar or raising - GREAT! If the figures are lower - NOT GOOD. Pay attention to them over the next few reporting periods.

Column D represents (as a percentage (%)), the annualized (1-year) ROI for the prior calendar year. Each year is a rolling year, which means as you move forward, the prior year is replaced by a new year, and the prior year is rolled into the 3, 5- and 10-year returns.

Column E represents the prior three (3) year ROI. It is an average of the prior three-year investment period. Take note of the trends. Are your returns going up consistently or going down? This is important when rebalancing your portfolio.

Column F represents the prior five (5) year ROI. It is the average of the prior five-year investment period. Five years represents an "Investment Cycle"**.** As you look at your YTD, 1, 3, and 5-year periods, think about how the economy was doing. If the economy hit a bad spot it would be reflected during that ROI period.

Column G represents your average returns over the past 10 year (two market cycles). This gives you a good idea of how your long-term investments have performed. Take a serious look at the trends. It is preferable to have consistent growth in these numbers.

Column H represents the fees associated with this particular fund. The 12/31/2018, U.S. Supreme Court ruling decided that employers have a duty to keep watch over Defined Contribution Plans to guard against high management fees that can erode retirement savings. In this ruling the court stated that employers can be sued if they fail to "continue monitoring mutual funds" for unnecessarily high fees.

The example below represents the fees associated with a particular fund based on an investment of $1,000.00.

Asset Allocation – 1.25% x $1,000 = $12.50 fee

Short term Investments – 1% x $1,000 = $10.00 fee

Diversified Real Return – 6.1% x $1,000 = $61.00 fee

As one can see, index (passive) funds have less fees than actively managed funds. The dilemma: Investing in active versus passive mutual funds.

The question for you is: Do you want professional management actively managing your portfolio? Or do you want to pick an index that runs on it's your own?

Active managers can make changes to your portfolio faster than passive managers. Reason: If an active manager sees a major change coming in the marketplace, they can buy and sell quickly. A passive manager rides the crest of the index until the index hits it readjustment/rebalancing period (end of June or December). The choice is yours on which one to pick.

It is very important to pay attention to fees because of what are called "**Load versus No-Load Fees**".

A Loaded Fund has upfront administrative fees to get into the fund.

A No-Load means there is no upfront costs to get into the fund.

Remember: the administrator just oversees the DC Plan to ensure that it is managed according to their guidelines and performance criteria. The rest is up to you!

Our next article will be on "Things to Know When You Start Investing."

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