

Mutual Funds 101: A Beginner's Guide to Investing in Mutual Funds



The abundance of financial assets accessible can be overwhelming for novice investors in the capital markets. Investment requires due research, which can be intimidating for newcomers who are unfamiliar with the markets. Investments in mutual funds may be advantageous in this situation.

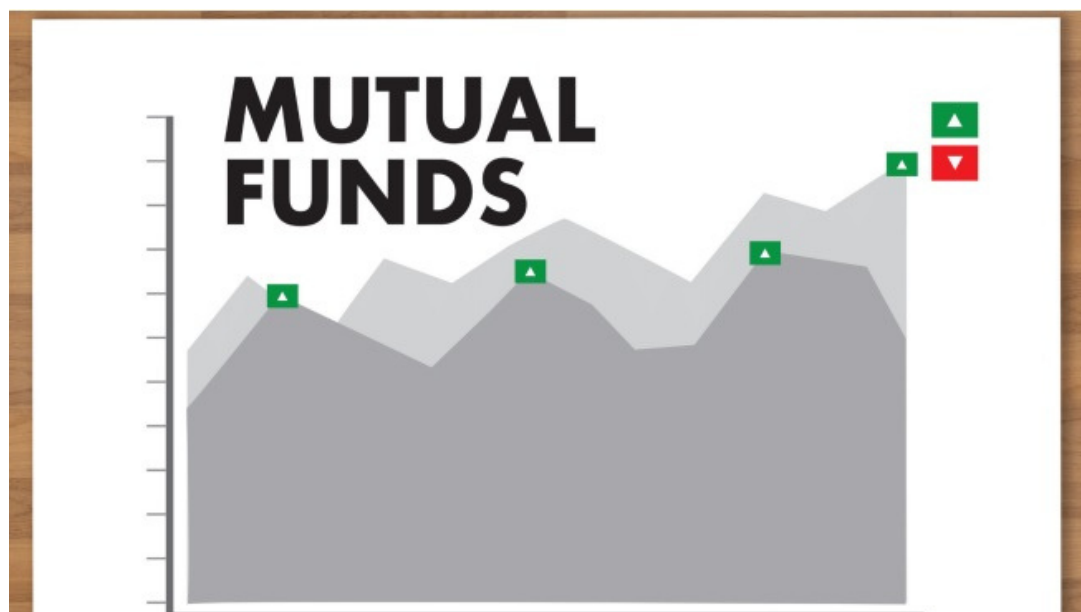
Mutual funds pool money from many investors and spend it in a range of different assets. Investors who are unable or unwilling to continuously scour global stock, bond, or real estate markets for the best investment opportunities will find this strategy to be especially appealing.

This guide attempts to offer a thorough analysis of mutual funds, covering their advantages and risks, operational details, and the best mutual funds to invest in.

Introduction to Mutual Funds

A mutual fund is comparable to a communal pot where investors pool their funds to engage in different areas of the capital markets. The resulting earnings are then divided among the investors according to their respective contributions. The fact that the risks connected with the market are distributed among numerous investors is a key benefit of mutual funds.

Shares are purchased by investors, who then participate in the fund's success according to the number of shares they own. You could relate these shares to a stock. Because a financial team actively manages mutual funds, they are known as active funds.



Investment Strategies for Mutual Funds

The idea behind an investment fund is simple: a fund company establishes a fund with a particular investment emphasis, and investors can buy shares of the fund either with a one-time investment or by making recurring deposits through a savings plan. In doing so, the business pools the money from numerous buyers into the fund, resulting in the creation of a sizeable asset. Only professionals in the business manage and choose the investments for the fund.

There are many different kinds of mutual funds that can be purchased, and each one invests the entrusted funds in various types of investments. These consist of:

- **Equity Funds:** These invest in publicly listed companies and typically comprise 50 or more stocks, enabling investors to diversify their portfolio and spread their risks.
- **Bond Funds:** These invest in interest-bearing securities such as government or corporate bonds, providing investors with regular interest or income.
- **Money Market Funds:** These invest in fixed-income securities with short-term maturities, such as term deposits or promissory notes, and are ideal for parking money in the short term.
- **Real Estate Funds:** These invest in various properties such as hotels, offices, or shopping centers, allowing investors to invest in attractive properties without managing them.
- **Mixed Funds:** These combine different asset classes such as equities, bonds, and commodities, enabling investors to take advantage of various markets in one fund.
- **Funds of Funds:** These invest in other mutual funds, including equity, bond, real estate, and commodity funds, but can be cost-intensive due to the fees for managing individual funds and the fund of funds.

Each type of fund has its advantages and disadvantages, and the returns depend on various factors, including the composition and weighting of asset classes.

Online Methods for Investing in Mutual Funds

The days of going to a broker's office to open a mutual fund account are long gone. These days, doing it yourself online is simple. Although there are many websites dedicated to investing, there are primarily three methods to purchase mutual funds:

1. **Through Investment Companies:** You can buy mutual funds directly from companies that structure and manage them for clients, ranging from publicly traded corporations like JP Morgan to private equity firms like BlackRock. The significant advantage of this method is that you don't incur brokerage fees.
2. **Through Financial Services Companies:** These companies offer investors exposure to various types of mutual funds. They structure their mutual funds and offer investors access to mutual funds offered by other companies. However, you may incur additional fees to access outside funds. Notable financial services companies offering mutual funds include Vanguard and Fidelity Group.
3. **Through Brokerages:** These traditional brokerage houses allow you to open mutual fund accounts just as you would equity trading accounts. However, they are the most expensive options since you'll be charged transaction fees and account maintenance fees. On the upside, they offer access to every type of mutual fund in the market. Top mutual fund brokerage firms include TD Ameritrade, JP Morgan, and E*TRADE.

Once you've chosen how to purchase mutual funds online, there are some things to think about. These include the fund's long-term performance, performance consistency, performance during various market phases (rising and declining markets), and the fund management team's expertise.

Top Mutual Funds for Novice Investors

The success in the past, the complexity of the fund's structure, and the associated management fees are the main factors to consider when selecting the best mutual funds for beginners.

In light of this, the following are our top 5 recommendations for novice-friendly mutual funds:

#1: Dodge and Cox Global Stock Fund

- Category: Global Large-Stock Value
- AUM: \$12.2 billion
- Dividend yield: 1.1%
- Expenses: 0.62%
- One-year total return: 56.2%

#2: DoubleLine Total Return Bond Fund Class N

- Category: Intermediate Core-Plus Bond
- AUM: \$49.4 billion
- Yield: 2.9%
- Expenses: 0.73%
- One-year total return: 1.3%

#3: Federated Hermes Corporate Bond Fund

- Category: Corporate Bond
- AUM: \$945.9 million
- Yield: 2.1%
- Expenses: 0.86%
- One-year total return: 5.4%

#4: Fidelity Tax-Free Bond

- Category: Muni National Long
- AUM: \$4.6 billion
- SEC yield: 1.0%
- Expenses: 0.25%
- One-year total return: 6.7%

#5: Invesco Main Street Fund Class A

- Category: Large Blend
- AUM: \$11.0 billion
- Dividend yield: 0.7%
- Expenses: 0.83%
- One-year total return: 42.3%

#6: Vanguard Long-Term Corporate Bond Index Fund Admiral

- Category: Long-term bond
- AUM: \$5.3 billion
- SEC yield: 3.4%
- Expenses: 0.07%

Top Mutual Funds to Consider Investing in 2021

Here are the top-performing mutual funds in 2021:

1. Bridgeway Small-Cap Value Fund –YTD Return: 37.80%
2. DFA U.S. Small Cap Value Portfolio Institutional Class YTD Return: 35.35%
3. Bridgeway Ultra-Small Company Market Fund – YTD Return: 35.13%%
4. MassMutual Small Company Value Fund Class I – TD Return: 32.86%
5. American Century Small Cap Value Fund R6 Class – YTD Return: 32.65%
6. Hartford Small Cap Value Fund Class R5 – YTD Return: 32.49%
7. DFA U.S. Targeted Value Portfolio Institutional Class – YTD Return: 32.33%
8. AB Small Cap Value Portfolio Advisor Class – YTD Return: 32.30%
9. Columbia Small Cap Value Fund I Institutional 2 Class – YTD Return: 28.60%
10. JPMorgan Small Cap Value Fund Class R5 – TD Return: 28.05%

Overview of Fidelity Mutual Funds

With an estimated \$4.9 trillion in assets under management, Fidelity Investments Inc., a global financial services business, is one of the biggest asset management firms in the world. The company was founded in 1946. Fidelity provides a wide range of mutual funds, including over 10,000 funds created by Fidelity Investments Inc. and other businesses, in addition to a number of other financial services.

Investors can research their choices by having access to hundreds of fund companies by investing in Fidelity Mutual Funds. It follows that you can organize your investments using sector and thematic investing across all asset classes, geographical areas, and industry sectors.

Here are some of the top Fidelity Mutual Funds:

#1: Fidelity Advisor Technology Fund Class A

- Annual expense ratio: 1.01%
- One-year returns: 51.4%
- Six-months returns: 11.4%

#2: Fidelity Select Semiconductors Portfolio (FSELX)

- Annual expense ratio: 0.7%
- One-year returns: 69.7%
- Six-months returns: 23.3%

#3: Fidelity Advisor Small Cap Value Fund Class M (FCVTX)

- Annual expense ratio: 1.46%
- One-year returns: 78.9%
- Six-months returns: 28.6%

#4: Fidelity Real Estate Income Fund (FRIFX)

- Annual expense ratio: 0.73%
- One-year returns: 28.3%
- Six-months returns: 12.8%

Lastly

Determining your risk profile is crucial before engaging in funds. The equity part of your investment can grow in proportion to how much risk you're willing to take.

It's critical to spread your risk by diversifying your assets in addition to considering your risk profile. Consider investing internationally instead of locally, and consider investing across several different industries rather than just one. This tactic can increase your odds of achieving your investment objectives while reducing risk.