

What are Mutual Funds and why should I invest in them?

Mutual Funds are similar to pizzas. They both taste great? No, they are both made from a variety of ingredients. Pizzas are made with ingredients such as sauce, peppers, mushrooms, pepperoni, etc. all of which make each pie taste different. Mutual funds are also made from a mixture of ingredients. These ingredients however, are different types of investments, each contributing in their own way to make up the overall flavour of an investor's portfolio.

Depending on the toppings you choose, your pizza can be hot and spicy or mild and tame. Similarly, the types of mutual funds you select as part of your portfolio can be spiced with risk or merely sprinkled with only a mild amount of risk. Each slice of your mutual fund pizza contains different amounts of stocks, bonds and other investments that will give you a different degree of risk.

So what exactly is a mutual fund? A mutual fund is a pool of money from many individual investors. An investment company uses this money to pay a portfolio manager who builds a fund composed of stocks, bonds and other financial instruments according to a specific investing strategy. The company then sells shares of the fund to the general public at a price that reflects the value of the pooled securities. When you buy a share of the fund, you own a small percentage of the total portfolio, which means you participate in any of the fund's investment gains or losses. Depending on the fund, you can own a piece of 20 to 500 different companies for as little as \$1,000 to \$5,000 – sometimes even less. As a result you get a diversified portfolio for much less than you would if you purchased the same stocks and bonds individually. Also, most mutual funds are open-ended, which means that you can buy or sell at any time. Professional management and diversification are the two primary benefits of mutual fund investing.

Are funds safe? No fund is 100% safe. But because they are composed of a variety of investments, or diversified, your risk is mitigated. The more stocks and bonds you own, the less any one can hurt you when it performs badly.

There is a similar investment product that may be the answer if you want to ensure that your principle is protected. It's called a segregated fund. This fund is like a mutual fund but has a built in insurance contract. When you buy a segregated fund, you get the growth potential of mutual funds combined with the security of insurance. Just like mutual funds, you can buy and sell a segregated fund at any time.

Some of these funds offer the feature of a reset period, meaning that on your chosen maturity date you may receive, at minimum, the highest value achieved by your investments on any day up to 10 years prior, regardless of market performance. Of course, if the value of your investment is higher than the guaranteed amount on your chosen maturity date, it's yours to keep.

If you are among the growing number of Canadians concerned with the environmental and social responsibility of the companies in which their money is invested, you should consider **Ethical Funds®**. **The Ethical Funds Company™**, a division of Credential® Asset Management is Canada's leading manager of socially responsible mutual funds with approximately \$1.8 billion in assets under

management. In addition to evaluating all investments according to their financial, social, and environmental performance and outlook, **The Ethical Funds Company** works with companies, industry, regulatory and like-minded organizations to encourage corporate accountability, sustainability and market integrity.

Not convinced of the long-term positive impacts of sustainable business practices in a company's stock value? Now you can measure the results using the new Ethical® Canadian Index, the first real-time, broad-based composite of screened Canadian equities in the country, published daily at www.ethicalfunds.com.

So you think you don't have enough money to start investing? The Pre-Authorized Cheque (PAC) plan is a simple, proven approach to investing that guides you through the mutual fund process and keeps you on the right track even when market volatility occurs.

A PAC plan is simply an automatic and regular withdrawal of a fixed amount from your chequing account to purchase units of the fund(s) you have selected. The plan combines some of the most powerful tools available to make your personal financial management a piece of cake! The savings advantages of paying yourself first, the power of compound growth and the volatility reduction of dollar cost averaging are just some of the built-in benefits of a PAC.

Where am I going to find the money? One of the most powerful features of a PAC plan is that you pay yourself first. The regular purchases of a PAC plan are a painless way of developing an investment discipline. You may be pleasantly surprised by the investment strength you can accumulate when you combine the long-term power of compounding and the regularity of PAC plan purchases.

The PAC plan requires no initial deposit and you can begin to pay yourself first with as little as \$25 per pay period.

Isn't there too much volatility in the markets right now? The only certainty in investing is that markets will fluctuate. Dollar cost averaging, a key component of a PAC plan, can help reduce the impact of market volatility and provide reassurance through choppy periods.

Because you are contributing the same amount every period, a PAC plan buys more units when unit values are falling and fewer when they are rising. This strategy can often lower the average cost of investments.

Many types of investment options are offered by different companies to fit your specific goals. To help you decide which investment option is right for you, please contact Ozzie MacKay at 858-7909 or consult your financial specialist.

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