

# MUTUAL FUND CHECKLIST

How do you know if your mutual funds or 401k subaccounts are any good? Below is the checklist that I personally use when evaluating the quality of a mutual fund.

\_\_\_ Is it actively or passively managed? Actively managed funds believe they can out-perform market averages by utilizing selective stock picking and market timing. Unfortunately, history show us that most efforts to defeat market averages through active management fail. However, some actively managed funds do have good long-term track records. The key is to determine if the performance of the actively managed fund justifies the cost. I believe that a strategic combination of active and passively managed investment strategies is typically most appropriate.

\_\_\_ What are the total operating expenses? Mutual funds charge fees that usually don't appear on your statement, but you'll find them in the fine print within the prospectus. Many funds have operating expenses well above 1%. Fees reduce returns.

\_\_\_ What is the turnover ratio? Most funds do some internal buying and selling of their holdings. In most cases, it costs more money to buy a stock or bond than you would receive if you simultaneously sold it. The more you buy and sell, the more cost you incur.

\_\_\_ What asset class(es) does the fund buy? Although most mutual funds claim to focus on one particular asset class, very often they drift away in hopes of capturing a higher rate of return. Investment in such a fund could have a negative impact on your overall portfolio's asset allocation strategy.

\_\_\_ How has the fund performed in comparison to its asset class benchmark? If it's a large US Stock Fund, then how did it perform compared to the S&P 500? If it is a small US Stock Fund, how did it compare to the Russell 2000?

\_\_\_ How much cash does the fund hold? Excess cash in a fund can potentially lower its long-term rate of return.

\_\_\_ Overlap. If you own more than one mutual fund, do they buy the same stocks & bonds? If so, why? Overlap often creates more redundancy than diversification.

-- *Ryan Cravitz*

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