

The Prospectus - Read All About It!

How often have you heard: “Read the prospectus before investing”? But, how many times do people *actually* do so? Without a doubt, a **mutual fund** prospectus may seem confusing to read at first glance, although it is specifically written for the protection of the investor. In fact, the Securities and Exchange Commission (SEC) requires all firms that issue securities to register with the SEC and to disclose certain information to investors. Here’s a generic “user’s guide” to help you make a little sense out of any mutual fund prospectus.

Mutual fund companies usually include a financial report and an application as part of their prospectus. The information provided in different prospectuses is very similar, although the exact order of presentation of the items may vary. Typically, a summary of the fund objectives and a table of contents appear on the first pages. There may also be a brief summary of each section of the prospectus on the inside cover.

Where Should You Begin?

The first items to check are the **objectives** and **policies** of the mutual fund to see if they are compatible with the investment goals you have set for yourself. Objectives tend to fall into three broad categories: **stability** (protecting your principal); **income** (generating distributions through **dividends**); and **growth** (increasing the value of your **principal** through **capital gains**).

A review of the types of investment techniques used by the fund should give you an idea of the risks involved. However, the investment strategy is usually broadly defined to give the fund manager ultimate flexibility.

Next, check the section outlining **fees** and **expenses**. This tells you how much it costs to buy and sell shares of the fund, and how much it costs to run the fund (the **expense ratio**). The minimum purchase requirement may be lower if you are investing in an **Individual Retirement Account (IRA)**.

Then, read the section about distributions. Funds pay dividends and interest from their investments, and capital gain distributions when investments are sold at a profit. The prospectus will tell you how often distributions are declared—and whether you can reinvest in additional shares, or if you must take the distributions in cash.

One of the possible advantages of a mutual fund is that it offers professional management. The identity, and the length of tenure, of the portfolio managers should be disclosed in the prospectus. Past performance records can give you an idea of the fund's consistency although this, of course, is no guarantee of similar performance in the future.

Special programs in which you may be interested will be handled in separate sections. These might include: IRAs; automatic monthly contributions from your checking account; switching between funds within a family of funds; or check-writing privileges.

Also Remember . . .

In addition to the prospectus, funds publish a financial report annually, semi-annually, or quarterly. It will often be introduced by a letter commenting on the fund's performance in the period being reported, and explaining the fund's future goals, as well as how management hopes to achieve them. The report then lists the securities in the fund's portfolio. Most funds identify their holdings, including amounts and market values, and how **net asset value (NAV)** is calculated. Also featured in the financial report are the: Statement of Assets and Liabilities; Statement of Changes in Net Assets; and Statement of Operations.

Prospectuses and financial reports contain technical language that can be intimidating. While you may not want to read *all* about it, a little "prospecting" in the right areas can uncover valuable information to help you make informed investment decisions.

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