Getting started with mutual funds

Mutual funds are a great way to invest. They give you all the advantages of investing in stocks, bonds, and short-term investments. But they’re also extremely convenient—and they let you benefit from a professional manager’s experience. Here’s more about how mutual funds work, and the kinds of funds you’ll find in your workplace savings plan.

What is a mutual fund?
A mutual fund provides an individual investor with the chance to invest in many stocks, bonds, and short-term investments—all at once, and with one simple transaction. By gathering money from thousands, even millions, of investors and spreading it among many investments, mutual funds make it easy for you to take advantage of many of the market’s opportunities.

Every mutual fund is managed to achieve a certain objective, ranging from lower return potential and less risk (a conservative objective) to higher return potential and more risk (an aggressive objective). Most workplace savings plans offer a variety of fund choices covering a range of objectives.

Inside your plan’s mutual funds: stocks, bonds, and short-term investments
Mutual fund managers, also known as portfolio managers, try to meet their funds’ objectives by selecting from these three basic types of investments. And as a fund investor, you own a very small share of everything your fund invests in.

ACTION PLAN
• Understand what mutual funds are
• Learn how stocks, bonds, and short-term investments affect fund performance
• Discover the advantages of mutual fund investing

Here’s how stocks, bonds, and short-term investments work within mutual funds:

Stocks. A share of stock represents ownership in a company. When you own shares in a mutual fund that invests in stocks, you own a small percentage of all the stocks that the fund owns. As the value of the stocks held by a mutual fund rises and falls, so does the share price (or net asset value) of the mutual fund. When a fund sells the stock it owns for a higher price than it paid, it earns a profit or “capital gain.” On the other hand, if it sells at a lower price, it suffers a “capital loss.”

Bonds. Simply put, a bond is a loan from an investor to an organization or institution. Corporations, governments, and municipalities issue bonds as a way to raise money. As you might assume, much of the return on bond funds comes in the form of interest. The value of bond fund shares can also rise and fall—often in response to interest rate trends—though these moves are more modest than with stock funds.
Short-term investments. Also known as money market or cash investments, these include certificates of deposit (CDs), government bonds, and other so-called “short-term debt.” Virtually all of a money market fund’s returns are interest on the investments it owns. Though most of these funds try to keep a stable $1 share price, there’s no guarantee that they will. Unlike direct savings in CDs and other bank products, money market mutual funds don’t pay a guaranteed rate of interest and aren’t insured by the FDIC.

An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1 per share, it is possible to lose money investing in these funds.

A fund may invest entirely in stocks, bonds, or short-term investments or may combine any of the three. The chart below shows the relationship between a fund’s objectives, its holdings, its relative risk, and its earnings potential.

### Comparing mutual funds: a style guide

<table>
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<tr>
<th>Money market</th>
<th>Bond</th>
<th>Growth and income</th>
<th>Growth</th>
<th>International/global equity</th>
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<tr>
<td>What the fund primarily buys</td>
<td>Short-term instruments (like CDs, U.S. Treasury bills, etc.)</td>
<td>Bonds</td>
<td>A combination of stocks and bonds. May emphasize stocks more than bonds, or vice versa.</td>
<td>Stocks</td>
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<td>How the fund tries to make money</td>
<td>Earning interest from short-term instruments</td>
<td>Earning interest from bonds</td>
<td>Selling its stock holdings for more than it paid for them and earning dividends from stocks or interest from bonds</td>
<td>Selling its stock holdings for more than it paid for them</td>
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<tr>
<td>General risk level</td>
<td>Low</td>
<td>Low to moderate</td>
<td>Moderate to high</td>
<td>High</td>
</tr>
<tr>
<td>Earnings potential</td>
<td>Low</td>
<td>Low to moderate</td>
<td>Moderate to high</td>
<td>High</td>
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<tr>
<td>Other characteristics</td>
<td>Work to keep a stable $1 share price, but do not guarantee that they will be able to do so. Yield will vary.</td>
<td>Return, yield, and share price will vary</td>
<td>Return and share price will vary</td>
<td>Return and share price will vary</td>
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This spectrum is based solely on the characteristics of the general investment categories. Risk associated with the investment options can vary significantly within each particular investment category and the relative risk of categories may change under certain economic conditions. For a more complete discussion of risk associated with the mutual fund options offered through your plan, please read the prospectuses before making your investment decision.

Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.
The benefits of investing in mutual funds

Mutual funds make it simple to invest in an increasingly complex financial marketplace. There are two big reasons why:

**Diversification.** Most financial professionals say it’s better to own a variety of investments than to depend on the success of a small handful. By spreading your money around, you’re far more likely to have some investments that are doing well at any given time, even if others are doing poorly. In other words, diversifying your investments can help you spread the risk. And mutual funds offer built-in diversification. Keep in mind, however, that diversification does not ensure a profit or guarantee against a loss.

**Professional management.** Well trained and dedicated to the fund’s success, portfolio managers search for securities that suit the fund’s objective. When you select funds according to your objectives, you benefit directly from the manager’s efforts. You also save the considerable time and effort involved in researching individual securities and trading them yourself. Of course, you’re ultimately responsible for selecting and monitoring the funds you choose, and for making sure they continue to meet your investment objectives.

How mutual funds make money

There are two ways to earn money with mutual funds:

**Capital appreciation.** If the stocks or bonds your fund holds increase in value, your fund’s share price can also increase. This could allow you to sell your shares at a higher price than you bought them for.

**Dividends, interest, and capital gains distributions.** If the stocks held by your fund pay dividends, the bonds it holds pay interest, or if your fund sells a stock or a bond at a profit, all investors receive their share of the proceeds. When you invest within your workplace savings plan—or any retirement plan—these distributions are automatically reinvested in the funds that pay them out.

**WHAT IS A PROSPECTUS?**

Every mutual fund issues a prospectus, a booklet that summarizes all the details of the fund. A prospectus tells you the fund’s objective, what it invests in, who manages the fund, its fees and expenses, and other important information. Always read a fund’s prospectus before investing.

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.