

An introduction to mutual funds

ACTION: Two men are standing next to each other on a white-screen background. JIM is an everyday guy wearing jeans and a casual button-down shirt. CHIP is a Financial professional with a neat haircut wearing a business suit.

CHIP: Hi. I'm Chip and this is Jim.

CHIP: (Cont'd) In our first two videos, we talked about diversification.

JIM: Or, spreading your money among different types of investments.

CHIP: And asset classes, like stocks, bonds, cash, property and commodities.

JIM: That's right. So, Chip, what have you got for us today? I know! Let's talk about mutual funds...

CHIP: You bet!

SUPER: Mutual funds

CHIP: (Cont'd) Mutual funds are professionally managed investments that are funded by shareholders and generally have diversified holdings. They also aim to achieve a specific objective.

JIM: Let's try that again. Think of a mutual fund like a big pool of money that many people can invest in. It's managed by professionals who select the individual investments within it.

CHIP: That's exactly what I said. Do you have to distill and simplify everything I say?

JIM: Apparently, I do. So what types of investments would be in a mutual fund?

CHIP: Well, it depends what type of fund it is.

SUPER: Stock mutual funds

CHIP: (Cont'd) In a typical stock mutual fund, you would generally see collections of stocks or companies. But investors select funds based on their style.

JIM: Oh, I would select a very stylish fund then.

JIM: (Cont'd) Just joking, what do you mean by style?

CHIP: Well, two examples jump to mind: Growth funds and Value funds.

JIM: Okay, tell us about Growth funds first.

CHIP: I'd be happy to.

SUPER: Growth funds

CHIP: (Cont'd) Growth fund managers generally select stocks that have a much higher expectation for growth than the market and the economy. Because of their potential for growth people are willing to pay more for them, but potentially take on more risk as well.

JIM: I get it. So, this is kinda like buying the newest version of a phone. You want the newest features, so you're willing to pay more for them 'cause you think it has the potential to be better than anything you've seen before. But it's kind of a risk because all the reviews haven't come out yet.

CHIP: Right. And using your analogy I think I can explain how Value mutual funds work too.

JIM: This should be good.

SUPER: Value funds

CHIP: Value fund managers try to look for investments that are undervalued because of various market conditions. Buying these at what they consider a discount will hopefully benefit patient investors in the future.

JIM: And what does that have to do with my phone example?

CHIP: You didn't let me finish. A value fund in phone terms would be like buying last year's model at a discount. You get a good phone that you know works well, but it's cheaper than it ever has been before. That's value.

JIM: That's the first thing you've ever said that I actually understood.

CHIP: Glad it worked for you.

JIM: Anything else we need to know about mutual funds?

CHIP: Well, they don't ensure a profit or protect against any losses because they fluctuate with the markets they invest in.

JIM: What are you, a lawyer now?

CHIP: There is also no guarantee that they will achieve their investment strategies.

JIM: Okay, we get it, no guarantees.

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06/20 AODA