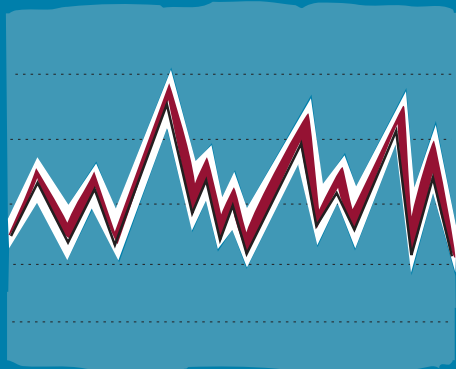
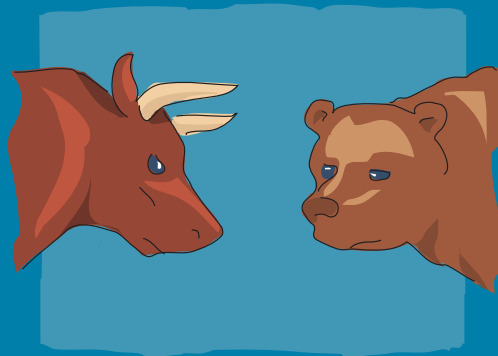


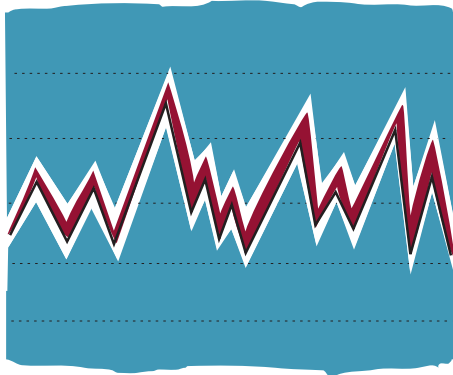
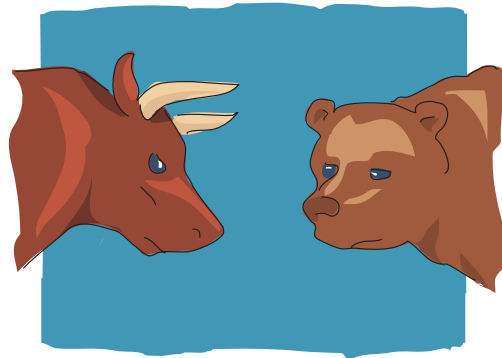


Understanding Mutual Funds



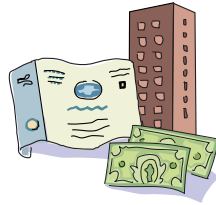


Understanding Mutual Funds



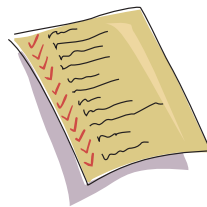
The Institute wishes to thank its members for their insightful contributions and review of this investor awareness brochure. Additional thanks to the Office of Investor Education and Assistance of the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., and the American Savings Education Council.

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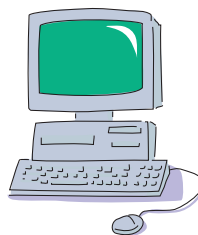
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To The Reader

On behalf of America's mutual funds, the Investment Company Institute is pleased to bring you "A Guide to Understanding Mutual Funds." This guide, the latest in the Institute's Investor Awareness Series, is intended to help individuals understand mutual funds and the basic principles of investing.

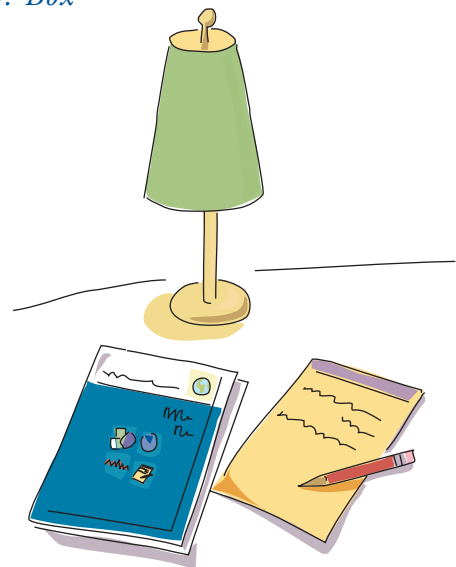
When it comes to investing, three parties share responsibility. First, the government has a responsibility to protect investors against fraud and dishonesty. Second, the mutual fund industry has a responsibility to provide investors with full disclosure regarding the risks, as well as rewards, of mutual fund investing. Third, investors have a responsibility to be informed and realistic about their goals and expectations of market returns.

We are pleased to provide you with "A Guide to Understanding Mutual Funds" to help you build your understanding and set realistic goals and expectations about investing. If you would like to know more, please visit our website at www.ici.org or write for a catalogue of additional investor awareness materials at ICI Investor Awareness Campaign, P.O. Box 27850, Washington, DC 20038-7850.

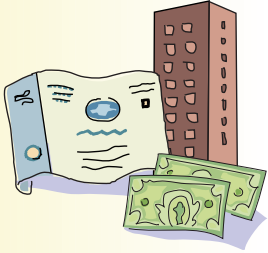


Matthew P. Fink

President, Investment Company Institute



About Mutual Funds



What is a Mutual Fund?

A mutual fund is a company that invests in a diversified portfolio of securities. People who buy shares of a mutual fund are its owners or shareholders. Their purchases provide the money for a mutual fund to buy securities such as stocks and bonds. A mutual fund can make money from its securities in two ways: a security can pay dividends and interest to the fund, or a security can rise in value. A fund can also lose money and drop in value. The fund passes any dividends, interest or profits on the sale of its portfolio securities, less fund expenses, to shareholders in the form of distributions.

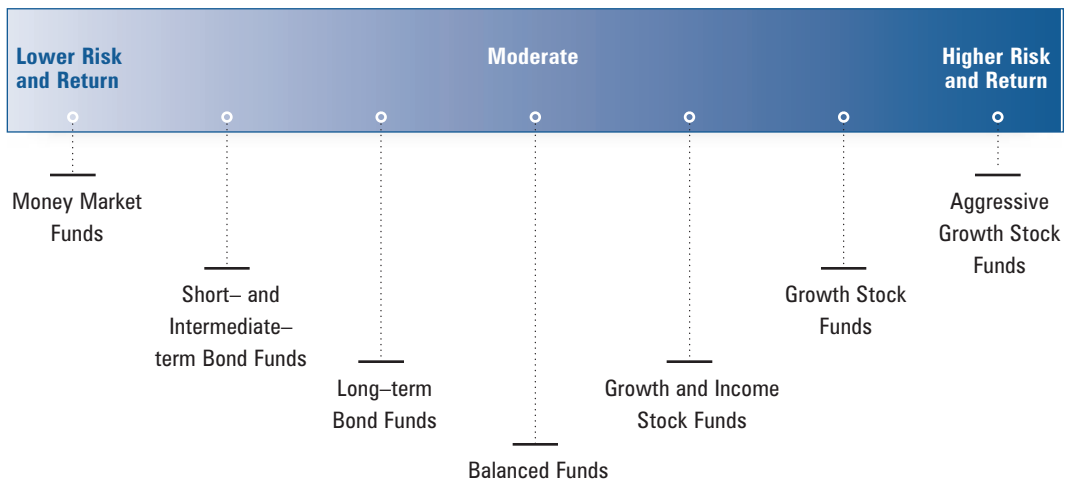
Different Funds, Different Features

There are three basic types of mutual funds—stock (also called equity), bond and money market. **Stock mutual funds** invest primarily in shares of stock issued by U.S. or foreign companies. **Bond mutual funds**

invest primarily in bonds. **Money market mutual funds** invest mainly in short-term securities issued by the U.S. government and its agencies, U.S. corporations, and state and local governments.

Risk and Reward Potential for Types of Funds

Generally, risk and reward go hand in hand with mutual fund investments.



Why Invest in a Mutual Fund?

Mutual funds make saving and investing simple, accessible and affordable. The advantages of mutual funds include professional management, diversification, choice, liquidity, convenience and ease of record-keeping—as well as strict government regulation and full disclosure.

Professional Management In a mutual fund, professionals manage a portfolio of securities and decide which securities to buy and sell. A fund is usually managed by an individual or a team of individuals who chooses investments that best match the fund's objective. Professional mutual fund managers have access to research and trading capabilities to decide which securities to buy and sell. As economic conditions change, the managers may adjust the mix of the fund's investments to meet the fund's objective.

Diversification A mutual fund holds a wide variety of securities, reducing your exposure to the risks of individual securities. Pooling your assets with other investor assets allows you to obtain a more diversified portfolio than you would probably be able to assemble on your own and at a fraction of the cost.

Choice Within the broad categories of stock, bond and money market funds, you can choose among a variety of investment approaches. Today, there are about 6,700 mutual funds available in the U.S., with goals and styles to fit most objectives and circumstances.

Liquidity Liquidity is the ability to readily access your money in an investment. Mutual fund shares are liquid investments that can be sold on any business day. Mutual funds

are required by law to buy, or redeem, shares each business day. The price per share at which the shares are redeemed is known as the fund's **net asset value (NAV)**. NAV is the current market value of all the fund's assets, minus liabilities, divided by the total number of outstanding shares.

Convenience You can purchase or sell fund shares directly from a fund or through a broker, financial planner, bank or insurance agent, by mail, over the telephone, and increasingly by personal computer. You can also arrange for automatic reinvestment or periodic distribution of the dividends and capital gains paid by the fund. Funds may offer a wide variety of other services, including monthly or quarterly account statements, tax information, and 24-hour phone and computer access to fund and account information.

Investor Protection Mutual funds are highly regulated by the federal government through the U.S. Securities and Exchange Commission (SEC). As part of this government regulation, all funds must meet certain operating standards, observe strict antifraud rules and disclose complete information to current and potential investors. These laws are designed to protect investors from fraud and abuse, but they do not help you pick the fund that is right for you or prevent a fund from performing poorly. Despite very strict government regulation, you can still lose money by investing in a mutual fund. A mutual fund is not guaranteed or insured by the FDIC, even if fund shares are purchased through a bank.

How a Fund Determines Its Share Price

Market Value in Dollars of a Fund's Assets
(\$6,000,000)



Fund's Liabilities
(\$60,000)



Number of Investor Shares Outstanding
(500,000)



Fund Share Price or Net Asset Value (NAV)
\$11.88

Fund share prices appear in the financial pages of most major newspapers. Actual calculations of a fund's share price can be found in its semiannual and annual reports.

Stock Funds

Stock funds invest primarily in stocks. When you buy shares of a stock mutual fund, you essentially become a part owner of each of the securities in your fund's portfolio. Stocks have historically been a great source of financial growth, even though the stocks of the most successful companies may experience periodic declines in value. Over time, stocks historically have performed better than other investments in securities, such as bonds and money market instruments. That's why stock funds are best used as long-term investments.



Stock prices move up and down for a variety of reasons—some of them affecting the entire market, others limited to particular industries or companies.

What is a Stock?

A share of stock represents a unit of ownership in a company. If a company is successful, shareholders can profit in two ways: the stock may increase in value, or the company can pass its profits to shareholders in the form of dividends. If a company fails, a shareholder can lose the entire value of his or her shares; however, a shareholder is not liable for the debts of a company.

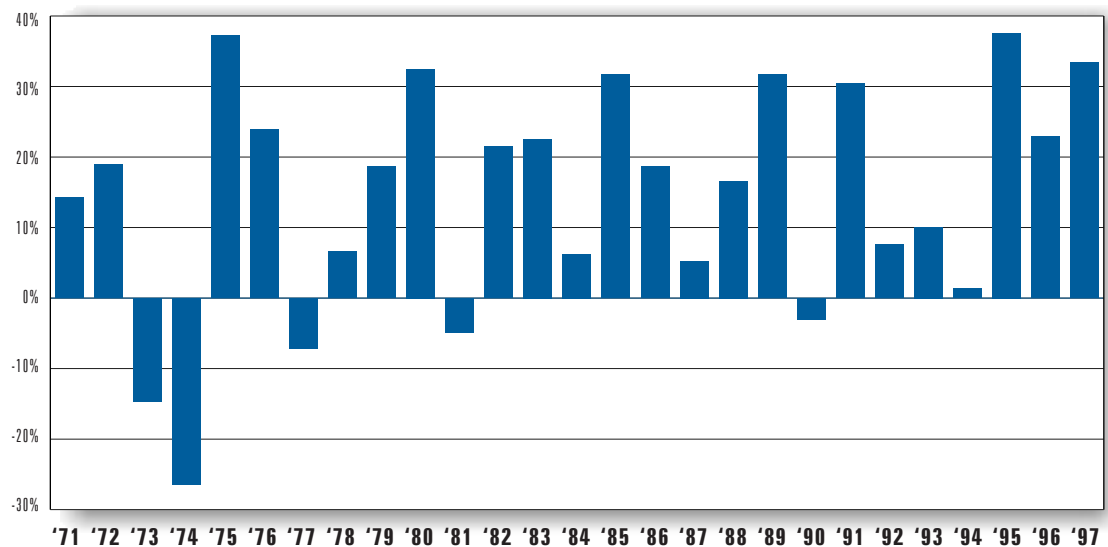
Stock Market Returns

The upswings and downturns of the stock market affect stock funds. Despite a history of outperforming other types of securities, stocks sometimes lose money (see chart below), and sometimes for long periods of time. The recent S&P 500 annual returns of 20 and 30 percent are unprecedented. The average rate of annual return from 1926 to 1996 is 10.7 percent, much lower than those achieved in recent years. It is reasonable to assume that stock market returns may return to the historical range.

Source: Ibbotson Associates

Volatility: Stock Market Returns Fluctuate from Year to Year

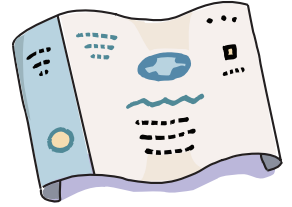
While stocks have historically demonstrated higher performance than most other types of investments over the long term, their year-to-year performance, as shown by this graph of the Standard & Poor's 500 Index, can vary greatly. The S&P 500 is a measure of the performance of the stocks of 500 large companies traded on the U.S. stock exchange.



Source: Haver Analytics

Bond Funds

Bond funds invest primarily in bonds. A bond fund share represents ownership in a pool of bonds and other securities comprising the fund's portfolio. Bond funds tend to be less volatile than stock funds and often produce regular income. For these reasons, investors often use bond funds to diversify, provide a stream of income or invest for intermediate-term goals. Like stock funds, bond funds have risks and can make or lose money.



What is a Bond?

A bond is a type of security that functions like a loan. When a bond is purchased, money is lent to the company, municipality or government agency that issued the bond. In exchange for the use of this money, the issuer promises to repay the amount loaned (the **principal**; also known as the **face value** of the bond) on a specific maturity date. In addition, the issuer typically promises to make periodic interest payments over the life of the loan.

Types of Risk

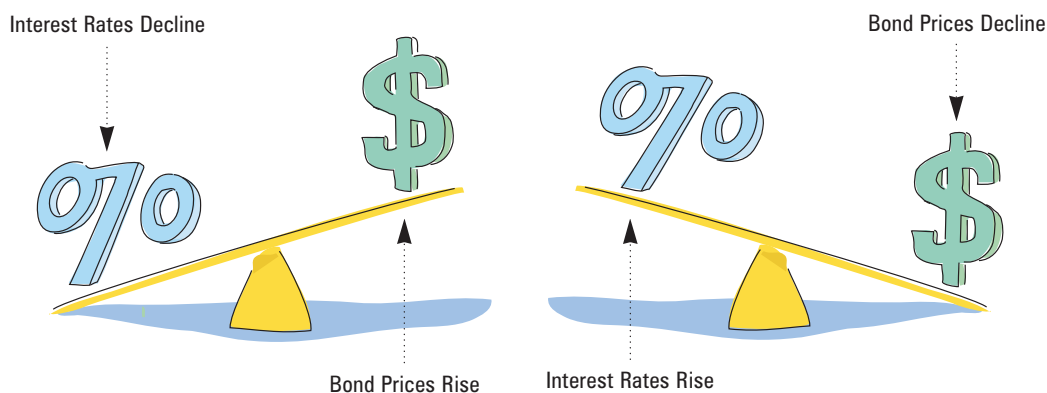
After a bond is first issued, it may be traded. If a bond is traded before it matures, it may be worth more or less than the price paid for it. The price at which a bond trades can be affected by several types of risk.

Interest Rate Risk Think of the relationship between bond prices and interest rates as opposite ends of a seesaw. When interest rates fall, a bond's value usually rises. When interest rates rise, a bond's value usually falls.

continued

How Interest Rates Affect Bond Prices

General interest rates are constantly changing, but the rate of interest on many bonds is fixed. Instead, their market prices change when general interest rates go up or down.



The longer a bond's maturity, the more its price tends to fluctuate as market interest rates change. However, while longer-term bonds tend to fluctuate in value more than shorter-term bonds, they also tend to have higher yields (see page 19) to compensate for this risk.

Unlike a bond, a bond mutual fund does not have a fixed maturity. It does, however, have an **average portfolio maturity**—the average of all the maturity dates of the bonds in the fund's portfolio. In general, the longer a fund's average portfolio maturity, the more sensitive the fund's share price will be to changes in interest rates and the more the fund's shares will fluctuate in value.



Bond credit ratings represent the opinion of independent agencies on the likelihood that a bond's issuer will be able to make periodic interest payments and repay principal.

Credit Risk Credit risk refers to the “creditworthiness” of the bond issuer and its expected ability to pay interest and to repay its debt. If a bond issuer is unable to repay principal or interest on time, the bond is said to be in default. A decline in an issuer's credit rating, or creditworthiness, can cause a bond's price to decline. Bond funds holding the bond could then experience a decline in their net asset value.

Prepayment Risk Prepayment risk is the possibility that a bond owner will receive his or her principal investment back from the issuer prior to the bond's maturity date. This can happen when interest rates fall, giving the issuer an opportunity to borrow money at a lower interest rate than the one currently being paid. (For example, a homeowner who refinances a home mortgage to take advantage of decreasing interest rates has prepaid the mortgage.) As a consequence, the bond's owner will not receive any more interest payments from the investment. This also forces any reinvestment to be in a market where prevailing interest rates are lower than when the initial investment was made. If a bond fund held a bond that has been prepaid, the fund may have to reinvest the money in a bond that will have a lower yield.

Are Tax-free Bond Funds Right for You?

With most bond funds, the income you receive is taxable as ordinary income. However, some funds invest in bonds whose interest payments are free from federal income tax, while other funds invest in bonds that are free from both federal and state income tax. Tax-exempt funds may be subject to capital gain taxes (see page 23).

The income tax benefit typically means that the income from these funds is lower than that of comparable taxable funds. But if you compare the yields after taxes, a tax-free fund may be a better choice, depending on your tax bracket. The following chart shows how taxable and tax-free yields compare after taxes for investors in different tax brackets.

If you live in an area where there are state or local income taxes, you may be able to find a fund whose interest payments are free from these taxes as well as federal taxes.

Tax Comparison

A Hypothetical

Tax-free Yield of: 4.0% 5.0% 6.0% 7.0%

Equals a Taxable

Yield in the 28%

Tax Bracket of: 5.56% 6.94% 8.33% 9.72%

Equals a Taxable

Yield in the 31%

Tax Bracket of: 5.80% 7.25% 8.70% 10.14%

Equals a Taxable

Yield in the 36%

Tax Bracket of: 6.25% 7.81% 9.38% 10.94%

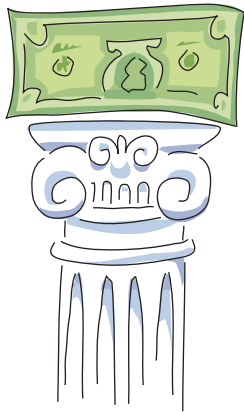
Equals a Taxable

Yield in the 39.6%

Tax Bracket of: 6.62% 8.28% 9.93% 11.59%

Money Market Funds

A money market fund share represents ownership in a pool of short-term, interest-bearing securities comprising the fund's portfolio. Money market funds are most appropriate for short-term investment and savings goals or in situations where you seek to preserve the value of your investment while still earning income. In general, money market funds are useful as part of a diversified personal financial program that includes long-term investments.



Maintaining a stable \$1 share price is a goal of most money market funds. However, there is no guarantee that you will receive \$1 per share.

What is a Money Market Instrument?

A money market instrument is a short-term IOU issued by the U.S. government, U.S. corporations, and state and local governments. Money market instruments have maturity dates of less than 13 months. These instruments are relatively stable because of their short maturities and high quality.

Money Market Fund Risks

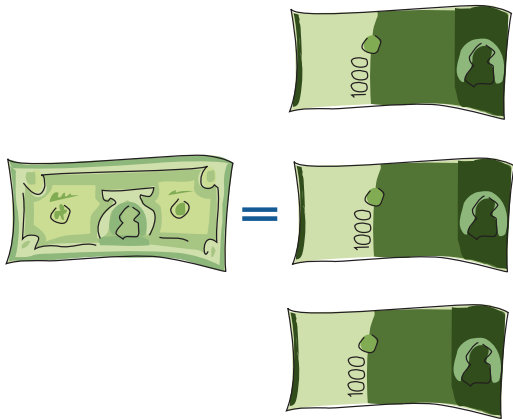
The short-term nature of money market investments makes money market funds less volatile than any other type of fund. Money market funds seek to maintain a \$1-per-share price to preserve your investment principal while generating dividend income.

To help preserve the value of your principal investment, money market funds must meet stringent credit quality, maturity and diversification standards. Most money market funds are required to invest at least 95 percent of assets in U.S. Treasury issues and privately issued securities carrying the highest credit rating by at least two of the five major credit rating agencies. A money market fund generally cannot invest in any security with a maturity greater than 397 days, nor can its average maturity exceed 90 days. All of these factors help minimize risk. However, money market funds do not guarantee that you will receive all your money back. Money market funds are not insured by the U.S. government.

Investing Internationally

International stock and bond mutual funds provide a way for you to invest in foreign securities markets. Investing internationally offers diversification and the opportunity for higher returns.

Investments in foreign markets also come with risks not found in U.S. markets. U.S. investors usually buy foreign securities in the other country's currency, making the investments subject to changes in the currency exchange rate. Fluctuations in currency exchange rates can have a significant effect on an investor's return. Some international funds try to offset the effect by performing "hedging transactions."



If your fund's investment in a Malaysian stock increased by 10 percent during a six-month period while the value of the Malaysian ringgit declined 10 percent during the same period, you would break even on the investment.

Investing in foreign markets may involve additional costs due to the unique operational requirements of an overseas fund, and may involve volatile political and economic situations—especially in emerging markets.

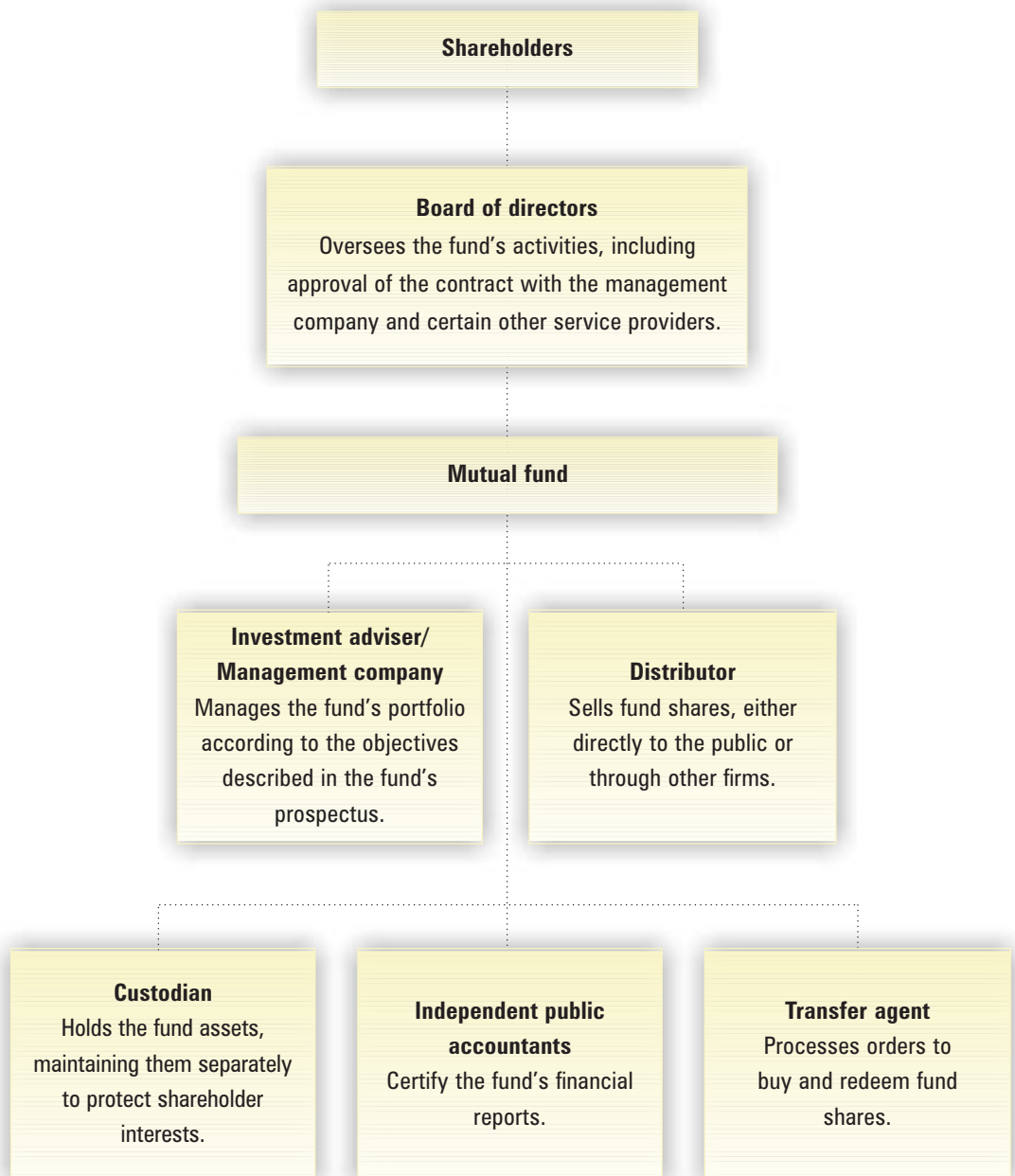


How Mutual Funds Are Structured

A mutual fund is usually either a corporation or a business trust (which is like a corporation). Like any corporation, a mutual fund is owned by its shareholders. Virtually all mutual funds are externally managed; they do not have employees of their own. Instead, their operations are conducted by affiliated organizations and independent contractors.

The Structure of a Mutual Fund

The illustration below shows the business structure of a typical mutual fund.



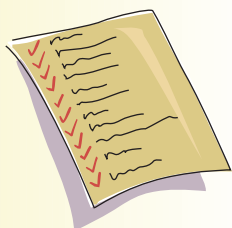
Other Types of Investment Companies

Mutual funds are one of three types of investment companies; the other two are closed-end funds and unit investment trusts.

A **closed-end fund** is an investment company whose shares are publicly traded like stocks. As a result, the price of a closed-end fund share fluctuates based on supply and demand. If the share price is more than the value of its assets, then the fund is trading at a premium; if the share price is less, then it is trading at a discount. The assets of a closed-end fund are managed by a professional or a group of professionals who chooses investments such as stocks and bonds to match the fund's objective.

A **unit investment trust** (UIT) is an investment company that buys a fixed portfolio of stocks or bonds. A UIT holds its securities until the trust's termination date. When a trust is dissolved, proceeds from the securities are paid to shareholders. UITs have a fixed number of shares or "units" that are sold to investors in an initial public offering. If some shareholders redeem units, the UIT or its sponsor may purchase them and reoffer them to the public.

Establishing an Investment Plan



Establishing Goals

Determining your financial goals is the first step to successful investing. You may have immediate goals, such as making a down payment on a home, paying for a wedding, or creating an emergency fund. You may also have long-term goals, like paying for college or retirement. Establishing goals will help assess how much money you need to invest, how much your investments must earn, and when you will need the money.

The next step is to make an investment plan designed to meet your goals. A plan paints a broad picture of your financial situation now and where you want it to be in the future. In addition to goals, your plan should reflect your time horizon, financial situation and personal feelings about risk. Establish your goals and create an investment plan now—the sooner you begin investing, the longer your money has to work for you.

Goals and Time Horizon

Generally, goals will dictate how much time you have to invest. For example, if you're 35 years old and investing for retirement at age 65, then you have a time horizon of 30 years before you plan to begin withdrawing money. Time horizon is important because it influences how you invest your assets. Typically, a shorter time-frame necessitates conservative investments, while a longer period allows you to handle more risk.

Risk/Reward Tradeoff

Making an informed decision to assume some risk also creates the opportunity for reward. Nevertheless, all mutual funds involve investment risk, including the possible loss of principal. This fundamental principle of investing is known as the risk/reward tradeoff. When forming a plan, examine your

personal attitude toward investment risk. Is stability more important than higher returns, or can you tolerate short-term losses for potential long-term gains?

Compounding

Compounding is the earnings on an investment's earnings. For example, if you invest \$1,000 at a rate of 5 percent per year, your initial investment is worth \$1,050 after one year. During the second year, assuming the same rate of return, earnings are based not on the original \$1,000 investment, but also on the \$50 in first-year earnings. Over time, compounding can produce significant growth in the value of an investment.

Three Common Investment Goals

Goal No. 1: Retirement

Most individuals buy mutual funds for long-term goals, especially retirement. It is estimated that retirees will need 70 to 80 percent of final, pre-tax income to maintain a comfortable lifestyle in retirement. If you plan to retire at age 65, retirement savings should last for at least 17 years, since the average life expectancy for a 65-year-old is 82, and continues to rise. Ideally, individuals use a combination of sources to fund retirement, such as Social Security benefits, employer-sponsored retirement plans—like 401(k) plans—and personal savings, including Individual Retirement Accounts (IRAs).



Goal No. 2: Education



Many parents and grandparents use mutual funds to invest for childrens' college education. Time horizon is an essential consideration when investing for education: you have 18 years to invest, starting when a child is born. However, if a child or grandchild is in your future, the time horizon can be lengthened by investing now.

Goal No. 3: Emergency Reserves and Other Short-term Goals

Emergency reserves are assets you may unexpectedly need on short notice. Many investors use money market funds for their reserves. Money market funds alone, or in combination with short-term bond funds, can also be appropriate investments for short-term goals.

Goals of Mutual Fund Investors*

84%
Supplement retirement income

26%
Pay for education expenses

9%
Supplement current living expenses

7%
Buy home or other real estate

**Multiple responses included*

Investment Advice

Professionals such as stockbrokers, financial planners, banks or insurance agents can help you analyze your financial needs and objectives and recommend appropriate funds. In addition, fund organizations may maintain their own sales force to help potential investors, or they may sell shares through outside professionals.

If you prefer to do it yourself, researching mutual funds and buying shares can be done through the telephone, mail or personal computer. Many funds can be contacted directly for the purchase of shares.

Figuring Out Your Retirement Needs

There are many plans that can help you estimate what your retirement needs are. Here's an example from the American Savings Education Council.

Ballpark Estimate

Planning for retirement is not a one-size-fits-all exercise. The purpose of Ballpark is simply to give you a basic idea of the savings you'll need when you retire. So let's play ball!

1. How much annual income will you want in retirement? (Figure 70% of your current annual gross income just to maintain your current standard of living. Really.) \$ _____

2. Subtract the income you expect to receive annually from:

- ▶ Social Security—If you make under \$25,000, enter \$8,000; between \$25,000 - \$40,000, enter \$12,000; over \$40,000, enter \$14,500 - \$ _____
- ▶ Traditional Employer Pension—a plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars) - \$ _____
- ▶ Part-time income - \$ _____
- ▶ Other - \$ _____

This is how much you need to make up for each retirement year: = \$ _____

Now you want an estimate of how much money you'll need the day you retire. So the accountants went to work and devised this simple formula. For the record, they figure you'll realize a constant real rate of return of 3% after inflation, you'll live to age 87, and you'll begin to receive income from Social Security at age 65.

3. To determine the amount you'll need to save, multiply the amount you need to make up by the factor below.

Age you expect to retire:	Your factor is:	\$ _____
55	21.0	
60	18.9	
65	16.4	
70	13.6	

4. If you expect to retire before age 65, multiply your Social Security benefit from line 2 by the factor below.

Age you expect to retire:	Your factor is:	+\$ _____
55	8.8	
60	4.7	

5. Multiply your savings to date by the factor below (include money accumulated in a 401(k), IRA, or similar retirement plan).

If you want to retire in:	Your factor is:	-\$ _____
10 years	1.3	
15 years	1.6	
20 years	1.8	
25 years	2.1	
30 years	2.4	
35 years	2.8	
40 years	3.3	

Total savings needed at retirement: = \$ _____

Don't panic. Those same accountants devised another formula to show you how much to save each year in order to reach your goal amount. They factor in compounding. That's where your money not only makes interest, your interest starts making interest as well, creating a snowball effect.

6. To determine the ANNUAL amount you'll need to save, multiply the TOTAL amount by the factor below.

If you want to retire in:	Your factor is:	= \$ _____
10 years	.085	
15 years	.052	
20 years	.036	
25 years	.027	
30 years	.020	
35 years	.016	
40 years	.013	

See? It's not impossible or even particularly painful. It just takes planning. And the sooner you start, the better off you'll be.

This worksheet simplifies several retirement planning issues such as projected Social Security benefits and earnings assumptions on savings. It also reflects today's dollars; therefore you will need to re-calculate your retirement needs annually and as your salary and circumstances change. You may want to consider doing further analysis, either yourself using a more detailed worksheet or computer software or with the assistance of a financial professional.

Dollar-cost Averaging

A systematic approach for long-term investing is called dollar-cost averaging, the practice of investing a fixed amount of money in the same investment at regular intervals, regardless of market conditions. Through dollar-cost averaging, the amount being invested is always the same; therefore, an investor ends up buying more shares when the price is low, and fewer when the price is high. Over time, dollar-cost averaging has the potential to reduce the average share cost to a mutual fund investor. Nevertheless, dollar-cost averaging does not assure a profit and does not protect against loss in declining markets.

“Buy low, sell high” may seem like good advice, but even experienced investors find it impossible to pinpoint market lows and highs with any degree of accuracy and consistency. That’s why putting a fixed amount of money into a stock or bond fund on a regular schedule is widely recognized as better than trying to “time the market.” However, you should always consider your financial ability to continue making regular investments through periods of low price levels.

It’s easy to use the dollar-cost averaging method. In fact, you can do it using automatic investment services available from most mutual funds.

An example of dollar-cost averaging

Let’s say, for example, that an investor puts \$100 a month into the same mutual fund for six months in a row. The share price is up in some months, down other months. The table below shows how this hypothetical investor might have made out.

Month	Investment	Share price	Shares bought
1	\$100	\$10	10
2	\$100	\$8	12.5
3	\$100	\$5	20
4	\$100	\$10	10
5	\$100	\$16	6.25
6	\$100	\$10	10

Results:

Total amount invested:	\$600
Number of shares owned:	68.75
Average cost per share: (\$600 ÷ 68.75 shares)	\$8.72
Current share price:	\$10



Setting up a regular investment schedule can make it easier to invest and can help you take advantage of the potential benefits of dollar-cost averaging.

Establishing Realistic Expectations About Performance

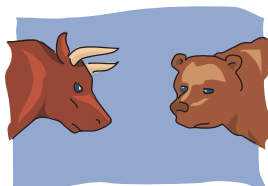
A fund investment can help you reach your financial goals, but mutual funds and the stock and bond markets are not an automatic route to financial security. That's why an important part of your investment plan is having realistic expectations about your funds and market performance.

Bull and Bear Markets

A **bull market** is a prolonged period of rising stock prices, and conversely, a **bear market** is a prolonged period of declining stock prices. The longest bull market in history has occurred during the 1980s and 1990s. However, bear markets are also a fact of life for investors.

Experts remind investors that it is unrealistic to expect stock market annual returns of 15 and 20 percent. The stock market's average annual return from 1926 to 1996 is 10.7 percent. The 1973-74 bear market caused a 41 percent drop in the S&P 500, a leading gauge of stock market performance.

It may be tempting to avoid market declines and bear markets by trying to time the market—that is, moving your money out of stocks when you think their prices will fall. However, you run the risk of missing out if the market goes up.



It's important to have realistic expectations for how an investment may perform—for risks as well as for returns.

The Ten Worst Stock Market Declines Since 1926

Year	Decline in S&P 500 Index
1931	- 43.3%
1937	- 35.0%
1974	- 26.5%
1930	- 24.9%
1973	- 14.7%
1941	- 11.6%
1957	- 10.8%
1966	- 10.1%
1940	- 9.8%
1962	- 8.7%

Measurements of Performance

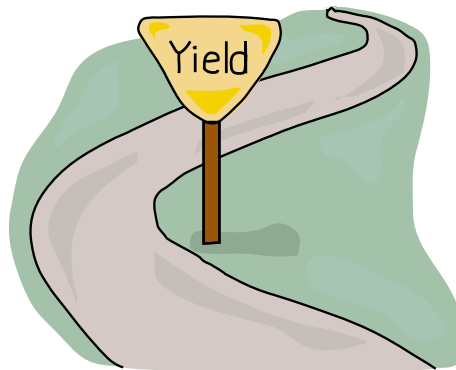
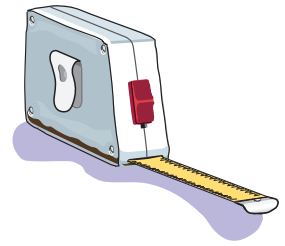
Total return is generally regarded as the best measure of fund performance because it is the most comprehensive. Total return includes dividend and capital gain distributions along with any changes in the fund's NAV. A dividend distribution comes from the interest and dividends earned by the securities held by a fund; a capital gain distribution represents any net gains resulting from the sale of the securities held by a fund. Total return, expressed as a percentage of an initial investment in a fund, represents the change in that investment's value over a given time period, assuming any distributions were reinvested in the fund.

Yield is the measure of net income (dividends and interest less expenses) earned by the securities in the fund's portfolio during a specified period. Yield is expressed as a percentage of the fund's NAV (including the highest applicable sales charge, if any).

Key Considerations About Performance

Past performance cannot predict future results. This year's top-performing funds aren't necessarily going to be next year's winners.

Short-term returns may not tell the whole story. Looking at fund performance over a longer time period, such as 10 years, can give you a better picture of how the fund has performed during market fluctuations.



The Risk of Inflation

It seems logical that the safest kind of investment is the kind that seeks to preserve your money. Nevertheless, these types of investments may not offer enough protection against an often overlooked risk: inflation.

The Invisible Tax

Think of inflation as an invisible tax that erodes the purchasing power of any investment. For example, \$1,000 in a deposit account earns 5 percent interest, but inflation is 2 percent per year. Although this money will earn \$50 in interest after one year, inflation cuts the actual worth of this \$50 down to \$49. In addition, the initial \$1,000 will also erode by 2 percent to \$980. Therefore, after one year, the account has a balance of \$1,050, but due to inflation, its purchasing power is only \$1,029. This is the effect of inflation risk. To maintain an investment's purchasing power, its total return must keep pace with the inflation rate.



When planning for future goals, it's important to allow for the likelihood that future expenses will be higher because of inflation.



The Effect of Inflation

In 1996, the inflation rate was 3.1 percent. Even at this historically low rate, inflation will erode the value of \$1,000 by more than one-quarter in 10 years:

In this many years...	\$1,000 will be worth...
5	\$854
10	\$730
15	\$624
20	\$533
25	\$455
30	\$389
35	\$332
40	\$284

assuming 3.1% annual inflation

The Annual Review

At least once a year, it's a good idea to review your investment plan. Because different investments grow at different paces, your current distribution of money among stock, bond and money market funds may no longer correspond with your original allocations. If this happens with your investments, you will probably need to redistribute some money to bring your allocations back in line with your plan.

Changing Lifestyles

Whenever you make a major life change, it's time to reassess your overall financial situation. Some common examples of changes:

- ▶ switching careers;
- ▶ retiring;
- ▶ getting married or divorced;
- ▶ having a child;
- ▶ starting your own business; and
- ▶ entering college or paying tuition for a child.

Most of these events are likely to affect your ability to invest, your time horizon and your overall financial picture, both short-term and long-term.

It's never easy to find the time to review your investment plan when you're in the midst of any of these life changes, but it's worth making the effort. You don't want to enter a new phase of your life with a plan that was designed for different circumstances.

In the end, staying on course with your asset allocations will help the performance and risk level of your overall portfolio reflect your goals and expectations.



Tax Considerations



Changing tax laws could affect how much you owe in taxes from fund distributions or when you buy and sell shares.

Mutual funds make two basic types of taxable distributions to shareholders every year: ordinary dividends and capital gain distributions. These two types of distributions are reported differently on your income tax return. If you're investing in an IRA, 401(k), annuity or other tax-advantaged retirement vehicle, tax issues are not generally a consideration.

Distributions

Dividend distributions come primarily from the interest and dividends earned by the securities in the fund's portfolio after expenses. These payments must be reported as dividends on your tax return.

Capital gain distributions represent the fund's net gains from the sale of securities held in its portfolio for more than one year. When gains from these sales exceed losses, they are distributed to shareholders.

At tax time, your mutual fund will send you a Form 1099-DIV that tells you what earnings to report on your income tax return. You report ordinary dividends as dividend income on your tax return and capital gain distributions as long-term capital gains regardless of how long you have owned your fund shares. Starting in 1997, long-term capital gains are taxed at different rates.

How to Read Form 1099-DIV

Once a year the fund sends a Form 1099-DIV to each shareholder. This form contains much of the tax reporting information you will need.

Ordinary dividends—the amount to report on Form 1040 as dividend income. These include any short-term capital gain distributions (assets held less than 12 months).

Total capital gain distributions—the amount to report as capital gain distributions. These include items in boxes 2b, 2c and 2d.

28% rate gain—capital gain distributions subject to the 28% maximum tax rate. These include assets held between 12 and 18 months.

Unrecaptured sec. 1250 gain—the portion, if any, of capital gain distributions attributable to certain real estate investments.

Nontaxable distributions—distributions that represent a return of capital; these are not taxable, but do reduce the basis in your fund shares.

Foreign tax paid and foreign country or U.S. possession—an amount entered here represents your proportionate share of foreign income tax paid by the fund. You may be able to take a deduction or credit on your tax return for this amount. If you take the foreign tax credit, you may be required to attach Form 1116 to your Form 1040.

PAYER'S name, street address, city, state, ZIP code, and telephone no. Mutual Fund XYZ 555 Investment Street San Francisco, CA 94104		1 Ordinary dividends \$ 986.10	OMB No. 1545-0110	Dividends and Distributions
PAYER'S Federal identification number 12-3456789		2a Total capital gain distr. \$ 1,691.03	1998	
RECIPIENT'S identification number 234-56-7890	RECIPIENT'S name Jane D. Investor	2b 28% rate gain \$ 947.66	Form 1099-DIV	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.) 345 Capitol Street	City, state, and ZIP code Washington, DC 20002	2c Unrecap. sec. 1250 gain \$ 0.00	2d Section 1202 gain \$	
Account number (optional)		3 Nontaxable distributions \$ 0.00	4 Federal income tax withheld \$ 0.00	5 Investment expenses \$
		6 Foreign tax paid \$ 0.00	7 Foreign country or U.S. possession \$	8 Cash liquidation distr. \$
		9 Noncash liquidation distr. \$		

Form 1099-DIV (Keep for your records.) Department of the Treasury - Internal Revenue Service

Tax-exempt Funds

Tax-exempt fund dividends from municipal bond interest are exempt from federal income tax and, in some cases, state and local taxes as well. Tax-exempt money market funds invest in short-term municipal bonds, and also pay tax-exempt dividends.

Even though income from these two types of funds generally is tax-exempt, you must still report it. Your tax-exempt mutual fund provides you with this information in a year-end statement, and will explain how to handle tax-exempt dividends on a state-by-state basis.

For some taxpayers, portions of income earned by tax-exempt funds may be subject to the federal alternative minimum tax; your tax professional can advise you on this. Even though municipal bond dividends may be tax-free, an investor may realize taxable capital gain when redeeming shares.

Share Sales and Exchanges

When you sell mutual fund shares, you will have a capital gain or loss in the year the shares are sold. An exchange of shares from one fund to another in the same fund family is taxed the same as if you sold the shares and purchased new ones with the proceeds. You are liable for tax on any capital gain arising from the sale, just as you would be if you sold individual securities. Losses may be used to offset other gains in the current year and thereafter.

The amount of the gain or loss is determined by the difference between the “cost basis” of the shares (generally, the original purchase price) and the sale price. To figure the gain or loss on a sale of shares, it is essential to know the cost basis.

Recordkeeping

Recordkeeping is critical to calculating taxes due on mutual fund investments. To figure out gains and losses, you will need a complete record of your purchases and sales of fund shares. Fortunately, funds provide you with all the records that you need to compute cost basis, and you should keep these records. As a special service, some funds will provide cost basis information to their shareholders or compute gains and losses for shares sold.

Calculating Cost Basis

Assuming no sales charges, the cost basis of a mutual fund share is simply the purchase price. If there were fees or commissions paid at the time of purchase, they are included in the basis.

Let's say you bought 100 shares of Blue-Chip Plus Fund at \$10 each and paid an upfront sales charge of 2 percent, or \$20, on the purchase. The cost basis for each share would be \$10.20 (\$1,020 divided by 100).

If you later sell the 100 shares for \$1,500, your capital gain will be \$480 (\$1,500 - \$1,020).

When you reinvest dividends and capital gain distributions to buy more shares, do not forget to include the cost of those shares in the cost basis of your account.



Because every person's tax situation is unique, it's a good idea to ask a tax professional if you have any questions about the tax status of your investments and any money you may have earned or lost through them.

Becoming an Informed Investor



The Mutual Fund Prospectus and Shareholder Reports

To protect investors, all mutual funds are highly regulated by the federal government through the U.S. Securities and Exchange Commission (SEC). As part of this government regulation, all funds must provide two types of documents to current and potential investors free of charge: a prospectus and a shareholder report.

A mutual fund's prospectus describes the fund's goals, fees and expenses, investment strategies and risks, as well as information on how to buy and sell shares. You can get a copy of a fund's current prospectus from the fund or your broker or financial planner. The SEC requires a fund to provide a full prospectus either before you invest or together with the confirmation statement for your initial investment.

Annual and semiannual shareholder reports document the fund's recent performance and include other important information. By examining these reports, you can learn if a fund has been effective in meeting the goals and investment strategies described in the fund's prospectus.

What To Look for in a Shareholder Report

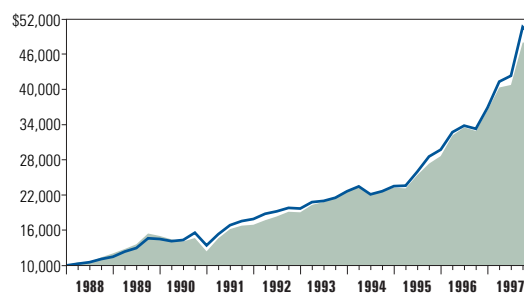
Shareholder reports typically include two main types of information:

- ▶ the fund's financial statements and
- ▶ a list of the securities the fund held in its portfolio at the end of the most recent accounting period.

The annual report discusses the factors and investment strategies that affected the fund's performance during the period covered by the report. Also included in a fund's annual report (with the exception of money market funds) is a line graph comparing the fund's performance at the end of each of the past 10 years (or since the first year the fund was in operation) with one or more market indices, such as the S&P 500 Stock Index or the Lehman Brothers Corporate Bond Index. The line graph assumes a \$10,000 investment was made at the beginning of the first fiscal year. The line

graph is accompanied by the fund's one-, five- and 10-year total return figures. (The SEC requires that the performance discussion and graph be provided in either the shareholder report or the prospectus; most funds include it in their shareholder reports.)

Evaluating Fund Performance



	Average Annual Total Returns			Final Value of a \$10,000 Investment
	Periods Ended October 31, 1997			
	1 Year	5 Years	10 Years	
Blue Chip Fund	31.27%	20.21%	16.95%	\$47,847
S&P 500 Index	32.11	19.87	17.17	48,772

Annual reports contain a line graph that shows the value of a \$10,000 investment in the fund over the past 10 years (or since inception), after expenses.

Newspapers, Magazines, Independent Reports and Websites

In addition to fund prospectuses and shareholder reports, there are many other sources of mutual fund information available to you. None are a substitute for reading the prospectus and shareholder reports.

Information found in newspapers, magazines, independent reports, websites and other outside sources of information can be valuable because they provide third-party views and comparisons of different funds.

To learn how to obtain information from many of these sources, look at the “Useful Addresses” section in the back of this booklet (see pages 28-29).

Newspapers and Magazines

Many newspapers, business magazines and financial publications cover mutual funds. They can be a source of information on industry trends, expense ratios, rankings and profiles of various funds.

Newspapers can be a good way to track mutual fund performance. Most major dailies publish in their financial sections the latest mutual fund share prices and performance.

In some papers, the share price (NAV) is identified as the sell, or bid price, which is the amount per share you would receive if you sell a share (less any deferred sales charges or redemption fees). Also listed in the paper is the offering price, sometimes called the buy, or asked, price which is the price investors pay to purchase shares. The offering price is the share price plus any sales charges.

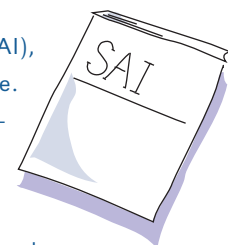
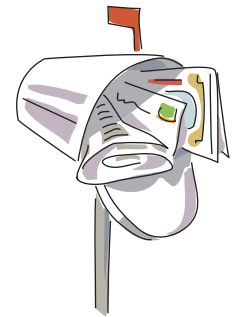
Online Information

Many fund companies have Internet websites. You can usually access fund information and download prospectuses and annual reports from these sites. Some companies use the Internet to provide educational material and to allow shareholder transactions. Fund information can also be found on the SEC’s website.

The Statement of Additional Information

If you want more information than what’s in the prospectus, ask the fund for its Statement of Additional Information (SAI), which the fund sends you free of charge. Most SAIs are lengthy and fairly technical but include many details about the fund, such as:

- ▶ additional disclosure on securities, risks and policies;
- ▶ the fund’s audited financial statements;
- ▶ the fund’s portfolio securities as of the date of the SAI; and
- ▶ information about anyone who owns 5 percent or more of the fund’s shares.



How To Read a Mutual Fund Fee Table

You pay for the cost of owning a mutual fund when you buy and own fund shares. There are two types of costs: shareholder transaction expenses, which come from the purchase and sales of fund shares, and operating expenses, which represent the costs of running the fund. A mutual fund's fees and expenses are required by law to be disclosed in a fee table in the front of the fund's prospectus. The fee table is standardized, making it easy for you to compare the costs of different funds. The SEC recently adopted minor changes to the fee table (not shown below) that will be made to all prospectuses by December 1, 1999.

Shareholder transaction expenses are those that are charged directly to your account for a specific transaction.

Maximum sales charge imposed on purchases refers to a "front-end load," a one-time charge deducted from your initial investment. Federal law allows front-end loads up to 8.5 percent. However, very few funds charge the legal limit.

Maximum sales load imposed on reinvested dividends is a fee charged by some funds on dividends that are reinvested in the purchase of additional shares. Most funds do not charge a fee for this.

Deferred sales load refers to a sales charge that is paid when you sell shares of a fund (also called a "back-end load"). **Contingent deferred sales charges** are one type of back-end load. Under this type of load, if you sell shares during the first year of ownership, you are charged a fee of up to 6 percent of the amount sold. The fee decreases each subsequent year until it disappears.

Redemption fees are charged by some funds and can be expressed as a dollar figure or as a percentage of the amount redeemed. A redemption fee is paid to the fund and is not a sales charge.

Exchange fees apply when you switch your investment from one fund to another within the same mutual fund family. These fees typically run between \$5 and \$25.

Account maintenance fees are annual fees that some funds charge, usually to maintain low-balance accounts.

FUND E	
Shareholder transaction expenses	
Maximum sales charge on purchases (as a % of offering price)	3%
Sales charge on reinvested distributions	None
Deferred sales charge on redemptions	None
Redemption fee (Short-term trading fee) on shares held less than 90 days (as a % of amount redeemed)	0.75%
Exchange fee	None
Annual account maintenance fee	\$12.00

How Do Fees and Expenses Affect Your Decision?

Each mutual fund has its own fees and expenses. The fees and expenses shareholders pay reduce the fund's total return. You must decide if the cost of owning a particular fund is acceptable to you. A fund with higher costs may make more money for you, even after accounting for the costs you pay, than a fund with a lower cost. The opposite may also be true.

Annual fund operating expenses reflect the normal costs of operating the fund. Annual fund operating expenses are deducted from fund assets before earnings are distributed and before performance is calculated.

EXPENSES

Annual fund operating expenses

Management fee	0.59%
12b-1 fee	None
Other expenses	0.65%
Total fund operating expenses	1.24%

Examples: Let's say, hypothetically, that each fund's annual return is 5% and that your shareholder transaction expenses and each fund's annual operating expenses are exactly as just described. For every \$1,000 you invested, here's how much you would pay in total expenses after the number of years indicated.

1 year	\$42
3 years	\$68
5 years	\$96
10 years	\$175

Management fees are yearly fees paid to the fund's investment adviser for managing the fund.

12b-1 fees are charged by some funds to compensate investment professionals for selling and promoting mutual funds. Some funds charge 12b-1 fees to pay for distribution and marketing expenses. Funds may not charge more than 0.75 percent of average net assets per year for distribution and marketing. A fund may also charge a service fee of up to 0.25 percent of average net assets per year to compensate sales professionals for providing services or maintaining shareholder accounts. These service fees can be in the fund's 12b-1 fee; thus, 12b-1 fees can be up to 1.00 percent. Funds that charge 12b-1 fees above 0.25 percent may not call themselves no-load funds.

Other expenses may include costs of fund services, such as toll-free phones and customer service, computerized account services, recordkeeping, legal, printing, mailing or advertising.

Total operating expenses is the sum of all the fund's annual operating costs, expressed as a percentage of average net assets. Total operating expenses are also known as the fund's expense ratio.

Example of the effect of expenses on a \$1,000 investment is required by the SEC to be included in every fund's fee table. It is presented in a standardized format that includes the same assumptions (5 percent annual return, expenses unchanged) in order to make it easier for you to compare different funds' fees.

Share Classes

A fund may offer different "classes" of shares for the same mutual fund. Multiple classes of shares—Class A, Class B, Class C, etc.—represent ownership in the same mutual fund, but charge different fees. This can allow you to choose the fee structure that best suits your needs.

For example, a mutual fund may offer Class A, B and C shares. The Class A share charges a front-end sales commission (or "load"); the Class B share charges a back-end load; the Class C share charges a "level load" every year. A, B and C shareholders own the same fund, but they have chosen different options for paying fund expenses.

USEFUL ADDRESSES

U.S. Securities and Exchange Commission

Office of Investor Education and Assistance
450 Fifth Street, NW
Washington, DC 20549
202/942-7040 or **1-800/SEC-0330**
www.sec.gov

If you believe you have been subject to improper business practices involving a mutual fund, broker or brokerage firm, the **National Association of Securities Dealers** (NASD) advises that you contact your fund, your broker, and the manager of your broker's office in writing. If you find the response unsatisfactory, you may choose to file a customer complaint. Complaints may be filed by sending a letter to the nearest NASD district office or online through the NASDR's website (**www.nasdr.com**).

NASD Regional Offices

Atlanta, GA	404/239-6100
Denver, CO	303/446-3100
New York, NY	212/858-4000
Chicago, IL	312/899-4400
Kansas City, MO	816/421-5700
Philadelphia, PA	215/665-1180
Cleveland, OH	216/694-4545
Los Angeles, CA	213/627-2122
San Francisco, CA	415/882-1200
Dallas, TX	972/701-8554
New Orleans, LA	504/522-6527
Seattle, WA	206/624-0790



For more information about filing a complaint or to learn whether a fund, broker, or brokerage firm has been involved in a disciplinary action, arbitration decision, civil judgment, criminal indictment, or has a formal disciplinary proceeding pending, call the **NASD Public Disclosure Phone Center** at **1-800/289-9999**.

You may also wish to contact your state securities agency for information on a fund, brokerage firm and its brokers, and whether there is a history of regulatory violations, disciplinary actions, or investor complaints. For a directory of securities agencies by state, call the **North American Securities Administrators Association, Inc. (NASAA)** at **202/737-0900**, or visit their website at **www.nasaa.org**.

Government Agencies and Organizations:

Department of Labor, Pension and Welfare Benefits Administration
gatekeeper.dol.gov/dol/pwba/

Federal Reserve Board
www.bog.frb.fed.us

Federal Trade Commission
www.ftc.gov

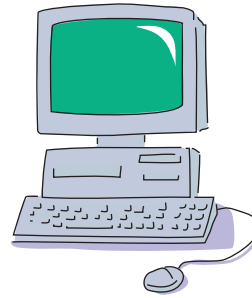
North American Securities Administrators Association, Investor Education
www.nasaa.org/investoredu/

Securities and Exchange Commission, Investor Assistance & Complaints
www.sec.gov/invkhome.htm

Social Security Administration
www.ssa.gov

The Investment Company Institute

The Investment Company Institute is the national association of the investment company industry. The Institute's website, ICI Mutual Fund Connection, located at www.ici.org, provides educational and reference materials for individuals seeking information about mutual funds. If you would like to know more, please write for a catalogue of additional investor awareness materials at ICI Investor Awareness Campaign, P.O. Box 27850, Washington, DC 20038-7850.



Mutual Fund Company Websites

Many mutual fund companies have websites that offer information about their funds and educational tools for investors. Many fund websites can be located using a major Internet search engine.

Glossary of Mutual Fund Terms



Annual and Semiannual Reports—Summaries that a mutual fund sends to its shareholders that discuss the fund's performance over a certain time period and identify the securities in the fund's portfolio on a specific date.

Appreciation—An increase in an investment's value.

Asked or Offering Price—(As seen in some mutual fund newspaper listings, see p. 25.) The price at which a mutual fund's shares can be purchased. The asked or offering price includes the current net asset value per share plus any sales charge.

Average Portfolio Maturity—The average maturity of all the bonds in a bond fund's portfolio.

Assets—The current dollar value of the pool of money shareholders have invested in a fund.

Automatic Reinvestment—A fund service giving shareholders the option to purchase additional shares using dividends and capital gain distributions.

Bear Market—A period during which security prices in a particular market (such as the stock market) are generally falling.

Bid or Sell Price—The price at which a mutual fund's shares are redeemed, or bought back, by the fund. The bid or redemption price is usually the current net asset value per share.

Bond—A debt security, or IOU, issued by a company, municipality or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date; the issuer usually pays the bondholder periodic interest payments over the life of the loan.

Broker/Dealer (or Dealer)—A firm that buys and sells mutual fund shares and other securities from and to investors.

Bull Market—A period during which security prices in a particular market (such as the stock market) are generally rising.

Capital Gain Distribution—Profits distributed to shareholders resulting from the sale of securities held in the fund's portfolio.

Closed-end Fund—A type of investment company that has a fixed number of shares which are publicly traded. The price of a closed-end fund share fluctuates based on investor supply and demand. Closed-end funds are not required to redeem shares and have managed portfolios.

Commission—A fee paid by an investor to a broker or other sales agent for investment advice and assistance.

Compounding—Earnings on an investment's earnings. Over time, compounding can produce significant growth in the value of an investment.

Contingent Deferred Sales Charge (CDSC)—A fee imposed when shares are redeemed (sold back to the fund) during the first few years of ownership.

Credit Risk—The possibility that a bond issuer may not be able to pay interest and repay its debt.

Custodian—An organization, usually a bank, that holds the securities and other assets of a mutual fund.

Depreciation—A decline in an investment's value.

Diversification—The practice of investing broadly across a number of securities to reduce risk.

Dollar-cost Averaging—The practice of investing a fixed amount of money at regular intervals, regardless of whether the securities markets are declining or rising.

Exchange Privilege—A fund option enabling shareholders to transfer their investments from one fund to another within the same fund family as their needs or objectives change. Typically, fund companies allow exchanges several times a year for a low or no fee.

Expense Ratio—A fund's cost of doing business—disclosed in the prospectus—expressed as a percent of its assets.

Face Value—The amount that a bond's issuer must repay at the maturity date.

Family of Funds—A group of mutual funds, each typically with its own investment objective, managed and distributed by the same company.

401(k) Plan—An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan.

403(b) Plan—An employer-sponsored retirement plan that enables employees of universities, public schools, and non-profit organizations to make tax-deferred contributions from their salaries to the plan.

457 Plan—An employer-sponsored retirement plan that enables employees of state and local governments and other tax-exempt employers to make tax-deferred contributions from their salaries to the plan.

Hedge Fund—A private investment pool for wealthy investors that, unlike a mutual fund, is exempt from SEC regulation.

Income—Dividends, interest and/or short-term capital gains paid to a mutual fund's shareholders. Income is earned on a fund's investment portfolio after deducting operating expenses.

Individual Retirement Account (IRA)—An investor-established, tax-deferred account set up to hold and invest funds until retirement.

Inflation Risk—The risk that a portion of an investment's return may be eliminated by inflation.

Interest Rate Risk—The possibility that a bond's or bond mutual fund's value will decrease due to rising interest rates.

Investment Adviser—An organization employed by a mutual fund to give professional advice on the fund's investments and asset management practices.

Investment Company—A corporation, trust or partnership that invests pooled shareholder dollars in securities appropriate to the organization's objective. Mutual funds, closed-end funds and unit investment trusts are the three types of investment companies.

Investment Objective—The goal that an investor and mutual fund pursue together, e.g., current income, long-term capital growth, etc.

Issuer—The company, municipality or government agency that issues a security, such as a stock, bond or money market security.

Large-cap Stocks—Stocks of large-capitalization companies, which are generally considered to be companies whose total outstanding shares are valued at \$2 billion or more.

Liquidity—The ability to have ready access to invested money. Mutual funds are liquid because their shares can be redeemed for current value (which may be more or less than the original cost) on any business day.

Long-term Funds—A mutual fund industry designation for all funds other than money market funds. Long-term funds are broadly divided into equity (stock) and bond and income funds.

Management Fee—The amount paid by a mutual fund to the investment adviser for its services.

Maturity—The date by which an issuer promises to repay the bond's face value.

Mutual Fund—An investment company that stands ready to buy back its shares at their current net asset value, which is the total market value of the fund's investment portfolio divided by the number of shares outstanding. Most mutual funds continuously offer new shares to investors.

National Association of Securities Dealers, Inc. (NASD)—A self-regulatory organization with authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value (NAV)—The per-share value of a mutual fund, found by subtracting the fund's liabilities from its assets and dividing by the number of shares outstanding. Mutual funds calculate their NAVs at least once daily.

No-load Fund—A mutual fund whose shares are sold without a sales commission and without a 12b-1 fee of more than .25 percent per year.

Open-end Investment Company—The legal name for a mutual fund, indicating that it stands ready to redeem (buy back) its shares from investors.

Operating Expenses—Business costs paid from a fund's assets before earnings are distributed to shareholders. These include management fees and 12b-1 fees and other expenses.

Portfolio—A collection of securities owned by an individual or an institution (such as a mutual fund) that may include stocks, bonds and money market securities.

Portfolio Manager—A specialist employed by a mutual fund's adviser to invest the fund's assets in accordance with predetermined investment objectives.

Portfolio Turnover—A measure of the trading activity in a fund's investment portfolio—how often securities are bought and sold by a fund.

Prepayment Risk—The possibility that a bond owner will receive his or her principal investment back from the issuer prior to the bond’s maturity date.

Principal—see Face Value.

Prospectus—The official document that describes a mutual fund to prospective investors. The prospectus contains information required by the SEC, such as investment objectives and policies, risks, services and fees.

Quality—The creditworthiness of a bond issuer, which indicates the likelihood that it will be able to repay its debt.

Redeem—To cash in mutual fund shares by selling them back to the fund. Mutual fund shares may be redeemed on any business day. You will receive the current share price, called net asset value, minus any deferred sales charge or redemption fee.

Reinvestment Privilege—An option whereby mutual fund dividends and capital gain distributions automatically buy new fund shares.

Risk/Reward Tradeoff—The investment principle that an investment must offer higher potential returns as compensation for the likelihood of increased volatility.

Rollover—The shifting of an investor’s assets from one qualified retirement plan to another—due to changing jobs, for instance—without a tax penalty.

Sales Charge or Load—An amount charged for the sale of some fund shares, usually those sold by brokers or other sales professionals. By regulation, a mutual fund sales charge may not exceed 8.5 percent of an investment purchase. The charge may vary depending on the amount invested and the fund chosen. A sales charge or load is reflected in the asked or offering price (see Asked Price).

Securities and Exchange Commission (SEC)—The primary U.S. government agency responsible for the regulation of the day-to-day operations and disclosure obligations of mutual funds.

Series Fund—A group of different mutual funds, each with its own investment objective and policies, that is structured as a single corporation or business trust.

Share Classes (e.g., Class A, Class B, etc.)—Represent ownership in the same fund, but charge different fees. This can enable shareholders to choose the type of fee structure that best suits their particular needs.

Shareholder—An investor who owns shares of a mutual fund or other company.

Short-term Funds—Another term for money market funds.

Small-cap Stocks—Stock of small-capitalization companies, which are generally considered to be companies whose total outstanding shares are valued at less than \$1 billion.

Statement of Additional Information (SAI)—The supplementary document to a prospectus that contains more detailed information about a mutual fund; also known as “Part B” of the prospectus.

Stock—A share of ownership or equity in a corporation.

Total Return—A measure of a fund’s performance that encompasses all elements of return: dividends, capital gain distributions and changes in net asset value. Total return is the change in value of an investment over a given period, assuming reinvestment of any dividends and capital gain distributions, expressed as a percentage of the initial investment.

Transfer Agent—The organization employed by a mutual fund to prepare and maintain records relating to shareholder accounts.

12b-1 Fee—A mutual fund fee, named for the SEC rule that permits it, used to pay for distribution costs, such as advertising and commissions paid to dealers. If a fund has a 12b-1 fee, it will be disclosed in the fee table of a fund’s prospectus.

Underwriter—The organization that sells a mutual fund’s shares to broker/dealers and investors.

Unit Investment Trust (UIT)—An investment company that buys and holds a fixed number of shares until the trust’s termination date. When the trust is dissolved, proceeds are paid to shareholders. A UIT has an unmanaged portfolio. Like a mutual fund, shares of a UIT can be redeemed on any business day.

Withdrawal Plan—A fund service allowing shareholders to receive income or principal payments from their fund account at regular intervals.

Yield—A measure of net income (dividends and interest) earned by the securities in the fund’s portfolio less fund expenses during a specified period. A fund’s yield is expressed as a percentage of the maximum offering price per share on a specified date.



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