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Achieving Financial Success™

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Please do not hesitate to contact your advisor for a Confidential Financial Review.

The Pioneers OF POOLED CAPITAL

The roots of the mutual fund industry date back to 19th century Great Britain. The Foreign and Colonial Government Trust of London, in 1868, offered advantages similar to our present-day funds. It promised the "investor of modest means the same advantages as the large capitalist... by spreading the investment over a number of different stocks". Today Canadian mutual fund companies offer nearly 2,000 mutual funds to investors (this includes segregated funds). Early in this century, the modern mutual fund industry re-pioneered the British idea of pooling the capital of many individual investors to purchase securities such as stocks and bonds from many different companies. We will look at the key principles that have inspired investors to hold approximately $350 billion in mutual funds.

1) Minimum market anxiety.

Each fund has a knowledgeable portfolio manager or a team of managers, with expertise in buying the securities of companies and/or governments. Most investors who invest in stocks and bonds on their own, live with a bit of anxiety. This is understandable because they lack what fund managers possess: a) market knowledge, b) investing experience, c) self-discipline, d) a proven strategy, and e) daily time to assess the fund's securities.

2) Ease of investing.

Automation can beat procrasti-nation. With as little as $50 per month automatically transferred from your bank account you can purchase a mutual fund of your choice. You can also get started by investing a lump sum of $500 to $1,000.

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3) New investment capital can be added to a mutual fund.

As long as you meet the minimum (if any) investment to add to your account, new unit purchases can be made at any time. For example, if you invest an additional $500 (net after any sales commissions) in a fund selling at $10 a share, the fund credits your account with 50 new shares ($500 divided by $10 = 50).

4) Simplicity of transaction.

Fund units can be purchased or sold easily, offering a liquid form of investment and assuring ready access to capital in the case of an emergency.

5) Immediate Diversification.

Even with a small investment of $1,000, your capital purchases units representing ownership of the securities held by the fund. To reduce risk, legally a fund may invest no more than 10% of its assets in any one security except for government securities. This provides wider diversification, limiting the potential for loss.

6) Past performance is obtainable from public records.

Financial advisors, mutual fund data services, the fund companies and the newspapers all record and offer reports of the performance of mutual funds.

7) Efficiently re-invest dividends.

If you individually own stocks, you might find re-investing small dividend payments inefficient or impractical after commissions. However, a mutual fund will easily re-invest all your dividends automatically, which can add nicely to your future profits.

8) Automatic withdrawal plans.

Most funds allow you to sell units at pre-selected intervals to create income. You can set up regular transfers to your bank account that fit your needs.

9) Government regulation.

The mutual fund industry is heavily regulated by the provincial securities commissions and subject to provisions that protect you from fraud. Your capital is actually held in a trust that serves as a custodian of all the pooled capital.