

Mutual Fund Investing Made Simple

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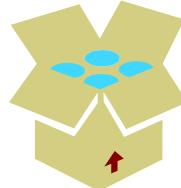
Open- or closed-end, load or no-load, equity or debt, sector or index? These are only some of the questions Monica Haven, E.A. will address as she teaches you the basic principles to consider before buying or selling a mutual fund.

The information contained herein is for educational use only and should not be construed as tax, financial, or legal advice. Each individual's situation is unique and may require specialized treatment. It is, therefore, imperative that you consult with tax and legal professionals prior to implementation of any strategies discussed.

"Rednecks think that mutual funds means everyone is having a food time"
-- Jeff Foxworthy

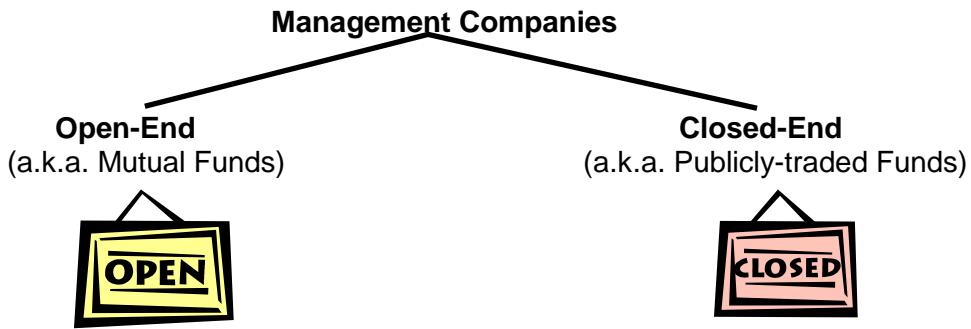
A. Packaged Securities

- Professional management
- Portfolio diversification and risk minimization
- Reduced transaction costs
- Liquidity



B. Regulatory Oversight

1. Investment Company Act of 1940



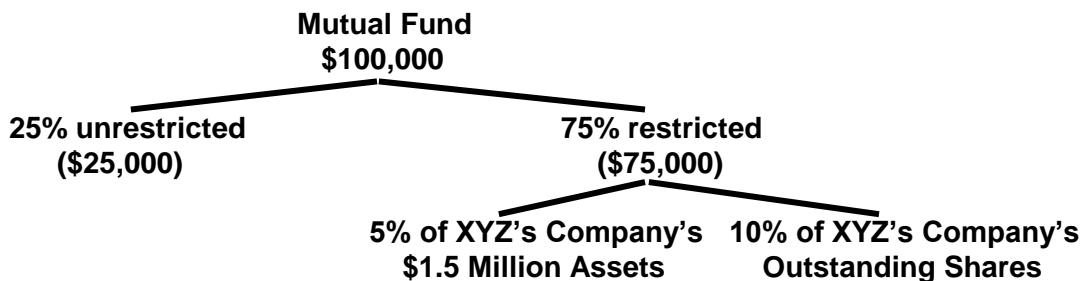
- continuous offering
- unlimited # of shares and \$
- purchased directly from fund
- forward-priced at next NAV
- OP = NAV + SL
- maximum SL = 8.5% OP
- fractional shares available
- exchange privilege w/l family
- redemption at NAV

- one-time initial public offering
- fixed # of shares and \$
- exchange-traded
- priced via supply & demand
- P = Ask + Commission
- typical commission = 1 to 2%
- potential prem. or disc. to NAV

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2. Diversified Investment Company



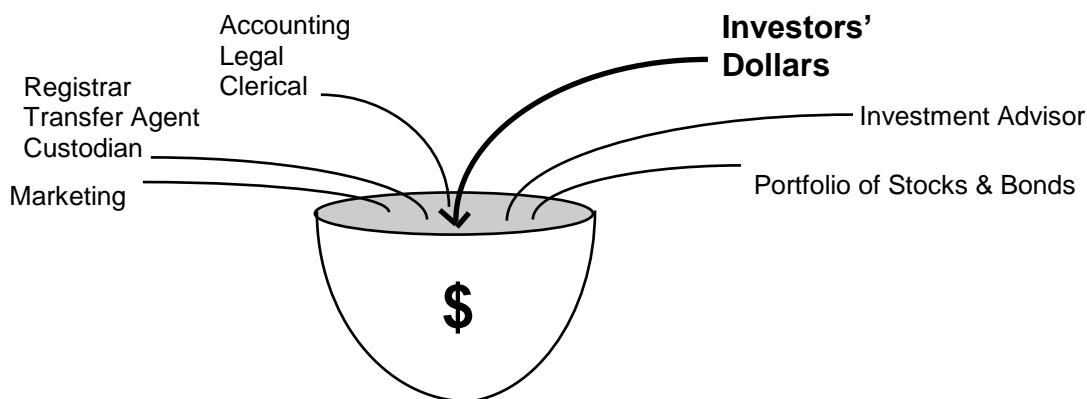
3. Investment Advisors Act of 1940



C. Oft-overlooked advantages of loaded over no-loaded funds

- Broker assists with selection and paperwork
- Broker recommends timing of purchase and sale
- Broker monitors performance of fund on an ongoing basis
- Client is more committed to investment
- Client fears and knee-jerk reactions to market news can be tempered
- Fund manager has greater freedom to participate in the markets
- Portfolio is subject to less turn-over
- 12b-1 fees are typically lower

D. Flow of Funds



E. Benefits provided to investors by Mutual Funds

- SEC regulated
- Affordability
- Letter of Intent (LOI): 13-month time limit, but reduced SL available on full investment
- Rights of Accumulation: no time limit, but reduced SL available only after reaching breakpoint
- Flexibility
- Convenience
- Minimal paperwork

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- Ease of monitoring
- Automatic dividend reinvestment
- Dollar-cost averaging

“Sweater-cost Averaging”



Suppose you buy 1 sweater at \$50 and discover that it is on sale for \$20 one week later...

Would you undress and return it for \$20 OR would you buy a 2nd sweater, knowing that you paid an average of \$35 for each?

Month	Amount Invested	Price/Share	# Shares Bought
1	\$ 100	\$ 5/sh	20 shares
2	\$ 100	\$ 10/sh	10 shares
3	\$ 100	\$ 15/sh	6.7 shares
4	\$ 100	\$ 20/sh	5 shares
5	\$ 100	\$ 25/sh	4 shares
TOTAL	\$ 500		45.7 shares

Average Price = \$ 15.00/share

Average Cost = \$ 10.94/share

- -works best if market is volatile (can be used to decrease risk exposure)
- -but if dollars are available now, then investing sooner rather than later is preferable

F. Tax Consequences

1. Dividends and Interest (constructive receipt)
2. Capital Gains Distributions (remember to adjust cost basis)
3. Capital Gains & Losses upon sale or exchange
 - FIFO
 - results in biggest capital gain if asset has appreciated
 - IRS will presume this method was used
 - Specific Identification
 - allows for greatest flexibility
 - must notify fund family in writing which shares are to be sold
 - Average Cost
 - convenient, but must be noted on tax return



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G. Selection Process

1. Identify investment objective
2. Use Survey Data to narrow the search
 - Lipper: A to E based on performance over varying time periods-ranks Micro- to Large-Cap and Investment Style
 - Morningstar: 1 to 5 stars based on load-adjusted performance (> 3 yrs.) & risk
 - Value Line: 1 to 5 based on persistence (not magnitude) of growth
 - Wiesenberger: 1 to 99 based on performance over 2 bull, 2 bear markets and recent 12 mos.
3. Study the Prospectus
 - Evaluate management style: age, depth, experience, consistency, replacement provisions
 - Identify "hidden charges" (deferred charges, 12b-1 fees, advisory fees)
 - Look for availability and quality of fund family
 - Compare "bonus" services (breakpoints, reinvestment fees, exchange fees, systematic withdrawals, internet access)



Ask these questions...

- What is the investment manager's long-term record?
- What factors contributed to that record? What sets them apart as mutual fund managers?
- Will those factors continue to work in the future?
- What is the organization's investment style?
- How does the investment manager research companies? Do they buy research or conduct it themselves?
- How are the portfolios managed?
- How much experience does the investment manager have?
- What are the investment expenses?

4. Use the Annual Report to determine the individual securities held in the fund
5. Select share class
 - A: front-end load
 - B: back-end load
 - C: spread-load
6. Remember: **PAST PERFORMANCE IS NEVER AN INDICATOR OF FUTURE PERFORMANCE**

H. Suitability

- UTMA's (minimal initial investment)
- IRA's (low custodial fees, computation of MRD)
- Seniors (ease of record-keeping, monthly distribution plans)
- Low-income Investors (risk reduction)
- High-income Investors (asset allocation)
- Taxpayers (simplified year-end reporting)

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