

Tips For Choosing High-Performance Mutual Fund

Most people who invest in mutual funds don't know what they are doing. They take advice from someone at a bank or perhaps a friend and plunk down money into a fund. Sometimes this strategy works, but most of the time, it doesn't. When you invest your money in a mutual fund, you are trusting someone to invest in the stock market for you. Because of this, you want to be sure this person knows what he or she is doing. Also, you want to make sure that this person is not charging you too much to manage your money for you. Mutual funds fees are "hidden," in the sense that they do not charge you an upfront fee but rather a percentage of the amount of money in your account. If this percentage is too high, you would do better just blindly picking stocks yourself. Here are five helpful tips for choosing the right mutual funds.

1. Keep the fees low. Generally, expense fees should not be much higher than 1% if it is just a basic domestic equity fund. You should never invest money in a fund that also charges a "load," which is an additional fee that is ridiculous to pay. Never invest in funds that charge loads; those funds are for suckers.
2. Check the asset base. Mutual fund managers only know of so many good investments. When they have too much money to manage, they begin investing in stocks they don't like much but need to invest in anyway or else they'll just have money laying around. There's little reason to invest in a fund with over \$5 billion in assets. It's best if it's under \$2 billion generally.
3. Consider an index fund. This is a fund that tracks a stock index, such as the S&P 500. For these funds, the manager just buys whatever stocks happen to be in the index. Since this is not much work, the fees are much lower. Even though this method is simple, it has proven to perform better than most mutual funds. Some high performance index funds include FSMKX (Fidelity S&P 500) and VIMSX (Vanguard S&P 400 Midcap).
4. Evaluate the fund's strategy. If you have a long term outlook, look for a more aggressive fund that invests in small-cap stocks, international stocks, and riskier stocks in general. High risk tends to result in high performance in the long run. If you are more risk-averse, consider an S&P 500 index fund.
5. Keep the fees low. Did I mention this already? Well, I'll mention it again. This is where most people mess up. Make sure you are not paying a load or paying too much in fees to the mutual fund.

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About the Author