

## How Fund Managers Do What They Do

### **Q. How do mutual fund managers decide which stocks or bonds to buy?**

A. They do exactly what every investor should do before buying or selling a stock or bond—lots of research. Managers usually want investments that meet certain standards—attractive earnings growth each year, for instance, or a product or service that is unique. To find such investments, fund managers study company reports, industry magazines, speeches and other public appearances by company executives. They also visit companies both here and abroad. A manager may research more than 100 stocks for each one he or she actually buys.

### **Q. How do I know what types of investments the fund manager wants?**

A. Read the prospectus or fund overview, the document that spells out relevant information about the fund. It tells you the fund's investment philosophy and goals and the criteria it follows to meet them. Read annual statements for recent thinking from the fund manager and for a list of companies in which the fund has recently been invested. Choose a fund because it has an investment philosophy you believe in. Keep watch on information from the fund that might indicate it has changed its investment style or philosophy. Also, keep in mind that investment values will fluctuate and there is no assurance that the objective of any fund will be achieved. Mutual fund shares are redeemable at the then-current net asset value, which may be more or less than their original cost.

### **Q. Do fund managers get information ordinary investors can't get?**

A. Fund managers analyze a host of factors, such as a company's revenues, quality of management and new product lines. They search for companies whose earnings are accelerating at an impressive rate compared with other companies. Even if you had access to all the same data, you probably wouldn't come away with as much useful information as a trained mutual fund manager. After all, one reason you buy mutual funds is for their professional management.

### **Q. How do fund managers buy and sell securities?**

A. Just the way you would by taking their buy-and-sell orders to a broker. Because they trade in such large quantities, in thousands, if not hundreds of thousands of shares at a time, fund managers spread their trading among many brokerage firms. They pay brokerage commissions when they buy and sell, just as you do. Because they trade often and in huge quantities, it's reasonable to assume that they pay lower commissions than an individual who is buying or selling just a few shares. Every mutual fund charges its investors an annual management fee.

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