The Savings Game

Don't invest in things you don't understand

All investors should learn enough of the basics to know what's happening to hard-earned money

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Q: *I'm a faithful reader of your column, but I don't like the whole "investing" world. Let me sit down and write a story for you or plan your landscaping and I'm a happy camper. But when it comes to investing, my mind closes down.*

Around 1993, I invested $2,500 in a mutual fund. I went to an Edward Jones guy I sort of knew and trusted as much as anyone. He suggested I leave the money there and forget about it. About a year ago, I had another $1,000 and he put it in another fund.

I have no clue what the day-to-day expenses of these funds are. I've seen the prospectus for each fund in the mail before but don't inspect it. I get a quarterly report; I usually look to see whether my total has gone up or *down. Right now, I'm down about $1,000 from one year ago – no surprise. I don't even know how to figure what interest rate I'm getting.*

What do I need to know, or look for, in these investments? I'm not a real risk taker because I know I'm quite ignorant of the investing world.

A: You are taking the biggest risk of all by investing in something you don't understand. But I don't expect you to study the prospectus and reports for each fund until you know everything. I accept that "investing" is not your thing and that you're never going to become an expert.

But you do need to learn enough of the basics to know what's happening to your money.

Start by asking that "Edward Jones guy" to explain why he recommended these funds. He should be happy to: Edward Jones is a reputable brokerage firm that caters to serious, long-term investors. And it doesn't do investment banking, so you don't have to worry that investment recommendations are tainted by any desire to win a stock-underwriting deal.

The funds your broker recommended have solid long-term records. They seek to grow your capital by investing mostly in common stocks. As a result, the value of your account will fluctuate from day to day, and may go down for extended periods.

You pay a commission to buy these funds, but once you do, the ongoing expenses are below average. (My policy is not to mention funds by name to avoid any appearance I am promoting them.)

All this information is in the fund literature you have.

All commissions, fees and expenses are in the "fee table" that's part of each fund prospectus. If the numbers are confusing to you, ask your broker to explain them.

Also, do more than check your account value. See how your funds have done compared with the index or benchmark against which they measure their performance. (For example, while the stock market has gone down, did your funds lose more or less than the market as a whole?) Funds are required to show this comparison when they report their performance to shareholders, which must be at least twice a year although most funds do it quarterly.

By the way, you are not getting paid an "interest rate" with these funds. When the price of the fund shares goes up, you are getting "capital appreciation." (Of course, the share price also can go down, or "depreciate.") You are also getting "capital gains distributions" when the fund managers sells stocks in each fund at a profit, and "dividend distributions" from the dividends paid by the stocks in the fund, reduced by the fund expenses.

All of them together – dividend and capital gains distributions, plus any increase in the share price of the fund – represent your gains.

How does the share price go up – or down? To arrive at the price of a share of an open-end mutual fund – what most people simply call a mutual fund – you first add up everything the fund owns at the end of each day. (Don't worry – the fund d this for you.)

For example, if a fund ov 20,000 shares of a stock t closed the trading day at $5 share, write down $1 mill (20,000 times $50). Do the sa for everything the fund owns, cluding bonds and cash. Th subtract all fund liabilities, cluding the money taken da from the fund to pay for ongo expenses.

Divide the result by the nu ber of shares in the fund to the share price (technically, "net asset value"). The price y actually pay is more than the asset value if your fund charge commission or "load" when y buy.

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