MUTUAL FUNDS

History of Mutual Funds

When three Boston securities executives pooled their money together in 1924 to create the first mutual fund, they had no idea how popular mutual funds would become

The idea of pooling money together for investing purposes started in Europe in the mid-1800s. The first pooled fund in the U.S. was created in 1893 for the faculty and staff of Harvard University. On March 21st, 1924 the first official mutual fund was born. It was called the Massachusetts Investors Trust.

After one year, the Massachusetts Investors Trust grew from $50,000 in assets in 1924 to $392,000 in assets. In contrast, there are over 10,000 mutual funds in the U.S. today totaling around $7 trillion according to the Investment Company Institute.

Mutual Funds are very popular today, known for ease-of-use, liquidity, and unique diversification capabilities.

MUTUAL FUND, form of management investment company that combines the money of it's shareholders and invests those funds in a wide variety of stocks, bonds, and so-called money market instruments. The latter include short-term investments such as Government Of India securities, commercial paper, and bank certificates of deposit. Mutual funds provide the investor with professional management of funds and diversification of investment among the securities offered by leading corporations, federal and state governments, and other entities.

Types of Mutual Funds

The following are the main two classifications of mutual funds;

I) Open-End Fund:

An open-end-fund is a fund in which there are unlimited shares available to the investing public. When you want to put money into the fund, you can buy shares from your favorite broker or directly from the fund house. These shares are bought at the Net Asset Value (NAV) of the fund. The NAV is the market value of a mutual fund's total assets, after liabilities, divided by the number of outstanding shares. It is generally calculated daily.

II) Closed-End Fund:

A close-end-fund is similar to an open-end-fund in most ways. However, it differs in that a limited number of shares are made available to the public when the fund is created. These shares trade on exchanges just like shares of stock. While the fund's price may be related to its NAV, it may often trade at a different value.

Investment Objectives

Mutual funds are classed according to their investment objectives. Broadly stated, funds seek growth of capital, or stability of capital, or current income. Within these classifications lies a multitude of variations. Money-market funds, which many investors look upon as an alternative to a bank account, seek complete safety of capital in short-term-investments.

Among funds that seek stability and safety, some may invest in high-quality bonds, others in blue-chip stocks, and still others in Government Of India securities, which are backed by the full faith and credit of the government.

Balanced funds, seeking both growth and income, may invest in stocks, bonds, and other financial instruments. Sector funds put all their funds in corporations in one area of business, such as the automobile industry, or in one country or region of the world.

Methods of Distribution

Open-end mutual funds may be sold by securities dealers and brokers, by financial planners, by a sales staff employed by the fund management, or directly by the fund to the investor. The last-named process carries no sales charge, or a low one, and such funds have management fees regardless of distribution methods.

Shareholder's Rights

Owners of shares in mutual funds receive investment income dividends derived from dividends and interest earned on securities in the portfolio. Capital gains distributions are made when and if long-term gains are realized on the sale of securities in the portfolio. Income dividends are paid quarterly or semiannually; capital gains distributions are usually made annually; toward the end of the fiscal year of the fund. A variety of services are offered to shareholders by mutual funds. Most funds provide accumulation plans, in which investors may buy shares at regular intervals. A few mutual funds offer contractual plans wherein the shareholder agrees to invest a certain amount each month. Many financial institutions offer a so-called family of open-end mutual funds, allowing investors to divide their savings among funds with varying objectives but managed by the same sponsor and to switch from one fund to another at little or no cost. A number of funds also offer withdrawal plans, under which shareholders may receive payments from their investments at regular intervals while income dividends and capital gains are routinely reinvested.