

## Module 8 Assignment: Mutual Funds

This assignment will give you the opportunity to become more familiar with Mutual Funds through researching various mutual funds on the internet. Specifically, you will be researching mutual funds from the [Vanguard investment website](#) and selecting those that match your investment objective.

The scenario for this assignment is that you are selecting mutual funds to invest for your 401K retirement account and your time horizon is 35-40 years. Your risk tolerance (which you discovered by taking the Investor Profile questionnaire) and time horizon are two main parts of determining your investment objective.

**For mutual funds there are three basic objectives: capital preservation, income, and growth.**

**You will research the Vanguard selection of mutual funds and select two mutual funds that align with your objectives.**

For example, if you have a **very low risk tolerance** and have a **fairly short time horizon** you would invest in a **mutual fund of government short-term bonds (less risky)**. For someone with a **higher risk tolerance** and the **desire for growth**, they would be attracted to mutual funds with **all or mostly stocks with capital appreciation vs. dividends**.

**Look at the Vanguard Mutual Funds by asset categories. Your investment objective will steer you toward certain types of mutual funds.**

**The basic types are as follows: (there are subtypes within each)**

- **Equity / Stock:** Stock can provide income (dividends) or capital appreciation (growth). Of course, stocks are overall more risky than bonds. Then, there are the sector funds which are concentrated on a certain industry which leads to more risk because of less diversification.
- **Sector Funds:** Stock mutual funds that concentrate on a certain industry leads to more risk because of less diversification.
- **Bonds:** Provide income through interest payments. Less risky than stock mutual funds
- **Balanced:** a combination of stocks and bonds.
- **Target date funds:** compositions adjust as your approach retirement (become more conservation as you get closer to retiring and needing the funds in the account)

Based on your risk tolerance and a long-time horizon decide what type of mutual funds you are interested in. Then look at those types mutual funds offered by Vanguard. In making your selections you need to align the risk of the mutual fund with your risk tolerance which also leads to the composition of assets you will prefer. You will also want to look at the performance and fees of each mutual fund.

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**Fill out the following to help narrow down your mutual fund selections:**

**1. My Risk Tolerance is \_\_\_\_\_** (from your Investor Profile questionnaire)

- **Conservative** - These investors are willing to accept lower returns for the potential to reduce volatility.
- **Moderately conservative** - These investors are willing to take on a little more risk to achieve growth, with the understanding that it may increase volatility
- **Balanced** - These investors generally want steady and sustained growth without the volatility that high-risk investments can bring.
- **Aggressive** - These investors are comfortable with the volatility that accompanies higher risk investments.
- **Very aggressive** - These investors are interested in higher potential growth with greater volatility and are willing to take substantial risks to achieve it.

**2. Basic Objective:** \_\_\_\_\_ (capital conservation, growth, income)

**3. Based on my risk tolerance, long time horizon and basic objective I am interested in**

\_\_\_\_\_ **types of mutual funds.** (from above list, you can have more than one type: equity/stock, sector funds, bonds, balanced, target date funds)

Once you have researched those mutual funds that you think fit your investment objective, select two and complete the form below followed by a short explanation of how you made your selections.

**Fill out the Chart below for the two Vanguard Mutual Funds you have selected that best fit your investment objective.**

	Mutual Fund	Risk	Asset Allocation	Return	Fee
1.					
2.					

- **Mutual Fund:** Enter the name of the fund
- **Risk:** Enter risk potential the numeric scale (1 – 5) (Overview tab)
- **Asset Allocation:** Enter asset allocation (under portfolio and management tab)
- **Return:** Enter return since inception (far right column main page)
- **Fee:** Enter expense ratio (look under fees and minimums tab)

**In the space below explain your thought process in making your mutual fund selections:**