

# Investing in Mutual Funds: Knowledge Is Power

Because they offer diversification, liquidity and professional management, mutual funds are a popular investment choice. Yet with approximately more than 2,500 mutual funds on the market, it can be challenging for individual investors to choose the mix of funds that can help them make progress toward their long-term financial goals. Ultimately, identifying quality mutual funds and combining them into a well-constructed portfolio takes knowledge. At Edward Jones, we have research professionals with an in-depth understanding of the mutual fund market and extensive expertise in putting together mutual fund portfolios for our clients.

## What We Do

Edward Jones has two key objectives in mutual fund investing:

- To identify what we believe are quality, long-term investment recommendations
- To provide advice on how particular funds and fund allocations can best be combined in a portfolio to help you achieve your long-term financial goals

## Knowledge Is Power

Edward Jones designates significant resources to analyzing mutual funds and ultimately providing guidance to our clients. To build their knowledge of the options available to clients, our financial advisors have access to investment professionals from numerous mutual fund companies. And our financial advisors are not alone in this mission. In fact, they are supported by two groups dedicated to mutual fund selection and portfolio construction: the Investment Policy Committee and the Mutual Fund Research department.

## How We'll Help You Choose the Right Mutual Funds

In seeking to identify quality mutual funds, Mutual Fund Research relies on both "science" and "art" to answer two basic questions:

1. Has the mutual fund's investment team been successful in the past?
2. Can we expect continued success in the future?

To answer the first question, we perform quantitative analysis, or more of the "science" aspect, which includes the following steps:

- **Analyzing fund performance** – Using advanced software programs, we analyze fund performance in different types of market environments and over various time periods. Our goal is to pinpoint the reasons why a particular fund has been successful and to make sure a fund's performance has been consistent and not been due to any one stock, market sector or other factor that could indicate luck rather than the skill of the fund manager.
- **Analyzing funds' underlying holdings** – We study the individual investments (stocks, bonds, government securities, etc.) that go into mutual funds to ensure these investments are in line with the fund's investment objective.
- **Monitoring funds' investment objectives** – We monitor funds to make sure they are being managed according to their investment objectives and aren't "drifting," or changing their investment process and strategies, over time.

### Investment Policy Committee

The Investment Policy Committee (IPC) is responsible for providing investment guidance and developing policies, such as asset allocation guidelines, that financial advisors can use in helping clients reach their financial goals. This committee, which includes investment professionals from numerous areas throughout Edward Jones, also seeks input from our financial advisors and industry professionals outside the firm.

### Mutual Fund Research

The Mutual Fund Research department searches the universe of mutual funds for quality investments. Our team of 25 investment professionals has more than 200 years of collective investment experience, and all our analysts are required to earn the Chartered Financial Analyst (CFA) designation.

The second question, dealing with the likelihood of a fund's success in the future, is often thought to be the harder question to answer. For this, we rely on qualitative analysis, or the "art" of the process, which involves discussions with the fund's portfolio management team. We speak face to face and on-site with portfolio managers, which allows us to gain insight into a portfolio management team's process, systems and models used to choose investments for the fund. In these meetings, we ask a variety of questions, including the following:

- What is the level of experience of a mutual fund's investment professionals?
- What resources and systems are available to a mutual fund company's analysts and portfolio managers?
- What are the performance and financial incentives for a mutual fund's investment professionals?
- How does the portfolio management team identify attractive investment ideas?
- How does the investment team build the mutual fund portfolio?
- Is the overall investment process repeatable?

Through the combination of art and science, quantitative and qualitative analysis, we can explore the world of mutual funds and identify those that are most appropriate for our clients.

## You Have Choices

Investing in mutual funds is one way to help you meet your long-term goals – but it isn't the only way. By offering a range of investment choices, Edward Jones hopes to better meet your needs. To complement your mutual fund selections, you may want to invest in individual stocks and bonds or other investments.

## Next Steps

We suggest that you contact your financial advisor to determine how you can best incorporate mutual funds into your comprehensive investment strategy. And by following your financial advisor's mutual fund recommendations, you'll know that the funds in which you invest have been researched and analyzed in an effort to provide you with suitable and quality investments to help you work toward your investment goals.

Mutual funds are sold by prospectus. You should consider the investment objectives, risks, and charges and expenses of a fund before investing. The prospectus contains this and other important information. Your Edward Jones advisor can provide a prospectus, which should be read carefully before investing.

Mutual fund investing involves risk. Your principal and investment return in a mutual fund will fluctuate in value. Your investment, when redeemed, may be worth more or less than the original cost. Investors should make decisions based upon their unique objectives, financial situation and risk tolerance.

Diversification does not guarantee a profit or protect against loss.

## How We'll Help You Diversify Your Mutual Fund Portfolio

We believe diversification is a key to success when investing in mutual funds – or any other investment. That's why we generally advise clients to build three distinct layers of diversification into their mutual fund portfolio:

### • Edward Jones Investment Pyramid –

The investment pyramid serves as a framework for portfolios built at Edward Jones. Based on a client's risk tolerance and life stage, the Investment Policy Committee recommends allocations to Aggressive, Growth, Growth and Income, Income, International and Cash investments.



### • Asset class and investment style –

Our Mutual Fund Research department also provides guidance on the next layer of diversification, which is achieved through the major asset classes (i.e., large, medium and small companies) or investment styles, such as value, core and growth.

- **Varying holdings within the funds –** While thousands of mutual funds are on the market, many of them closely resemble one another. In an effort to enhance the diversification in your portfolio, we generally choose funds that, even within the same asset class, differentiate themselves through their investment processes and individual holdings.

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