



# Destination Financial Freedom

Getting you there

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## Pick Me! Pick Me!

### Part 2: The Mutual Fund Selection Process

In our May issue, we reviewed some general strategies that must be taken into consideration before implementing an investment plan. After these principles are understood investors are ready to jump in the game and learn how to choose the specific mutual funds that fulfill their needs. Here are seven qualities to look for in a good mutual fund based on *Kiplinger's Mutual Funds 2006* magazine issue:



#### Lusty Performance

One of the primary objectives of a mutual fund is to make money for you. It is imperative that the fund have a good history of consistently making money.

This means that they fared better than their best fit index through the bear market (refer to the 5-year annualized return), and during the market recovery (the 3-year annualized return).

#### Management Excellence

Great performance does not happen by accident. It requires talented professionals flying solo or working together as a team. Look for managers who have performed consistently through a five-year period. Staying ahead of the game and knowing when a great manager starts a new fund can be very advantageous because you can get into the fund at the beginning before others identify the performance trend.

#### Low Costs & Expenses

There are two types of fees that mutual funds charge: a 'load' fee that generates the funds sales and marketing revenue, and an 'expense ratio' for the administration costs of operating the fund. Generally it is better to stay away from funds that have load expenses. Load fees can range anywhere from 2% - 5% or more. That can be a hefty sum to make up from the funds returns before you see any gains. Some mutual fund companies make deals with brokerages to waive load fees to their investors or advisors. Also keep in mind that generally small cap, international, or sector funds have larger expense ratios.



#### A Svelte Profile

Once a fund has proven track record investors begin to flock and want their share of the success. Believe it or not, there is such a thing as too much money to manage. Especially in small cap or sector funds, managers can run out of really good ideas and settle for mediocre ideas or end up stash money in low bearing cash. A large cap fund may be able to handle \$10 billion or more however, only \$1 billion can be too much for a small cap or sector fund. Some companies immediately recognize this problem and close the fund to new investors or possibly all investments.

#### Great Returns, Average Risk

Compare two international funds who both produced a 15% 12-month return over the same period of time. Some investors think that it doesn't matter which fund to pick. However, what if one fund fluctuated much more in order to get that 15% return, wouldn't you much rather invest in the fund that got you there smoothly rather than bumpy?

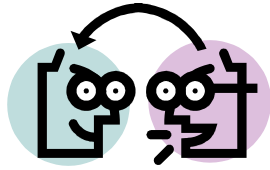


#### A Dance Partner

A manager who is willing to waltz with you means a lot; you are both either flowing together or tripping together. If a manager is willing to invest in the fund along side of you, they are more likely to try harder to be successful. Having a large portion of their assets at risk promotes motivation in not only your best interests but theirs as well. You can research this by going to the Securities and Exchange Commission's website, [www.sec.gov](http://www.sec.gov), click "search for company filings" and then "mutual fund prospectuses." Look toward the bottom of the "statement of additional information" under the manager's bio which will list if the manager has any investments in the fund, and if so, how much.

#### Clean Hands

The past several years there has been several scandals where certain fund companies were trading fund shares improperly for their own benefit. Some clients were given preferable treatment by receiving better prices when buying and selling the fund in exchange for their substantial business. It is important to steer clear of companies with a bad history. Even though the scandals have faded out of the spotlight, their lessons still remain. The reputation of a mutual fund family means something.



# Thought Swap

What matters most



**“If you don’t teach kids the ABCs of personal finance, you will be left with D and E – Debt and Entitlement later on”** – Susan Beacham, creator of The Money Savvy Pig

## **Proposed ‘401Kids’ Accounts**

According to *InvestmentNews*, a measure was introduced to the House of Representatives on May 9th that would let parents create savings accounts for their children for the purpose of financing college, buying a home, or saving for retirement. Called the 401K Family Savings Act and sponsored by Rep. Clay Shaw Jr., R-Fla., this bill would allow parents to contribute up to \$2,000 a year of after-tax dollars. The interest would accumulate tax free, and withdrawals for approved purposes would also be tax free. For more information visit <http://thomas.loc.gov> regarding bill HR5314.

**“A job is what you do to earn money, whereas work is the actions you take to have purpose – to make a difference. Retirement maybe the end of one’s job, but not the end of one’s life work.”** – Richard Leider



## **Wachovia Bank Sued for Self-Dealing & Breach of Fiduciary Duty**

Wachovia Bank has been accused of acting in its own self-interest and not fulfilling their fiduciary responsibilities to the sole beneficiary of two discretionary trust accounts. The accounts, originally funded with \$81,700, were created to provide income for a boy who had been shot and crippled in 1988 at the age of six. For years the assets were primarily invested in the bank’s proprietary line of products, the Evergreen Funds, which charge significantly higher fees even though there were better performing, lower cost funds available. It is also being claimed that the bank was “double dipping” fees by charging additional expenses for managing the trust accounts in addition to the mutual funds’ management and administration fees. Wachovia is also being accused of charging “sweep fees” for moving cash into money market funds. The lawsuit is seeking damages that could exceed \$5 million. (Source: <http://www.financial-planning.com>)

## **Why Wait? Warren Buffet is Giving it All Away**

It is the largest charitable donation in history! Warren Buffet announced that rather than waiting until his due time, he is going to make a \$31 billion gift to his long time friend and bridge-playing partner, Bill Gates. The donation will be made to the Gates Foundation making it the world’s largest charitable foundation, worth approximately \$60 billion. The Gates Foundation is committed to fighting diseases such as malaria and tuberculosis in developing countries, and to education and library technology in the United States.



**“Ignorance is Profitable: the crack-based notion that by not paying attention to your money... one day you’ll wake up RICH!”**

-MP Dunleavy, columnist at MSN Money



## **Increase Your Take Home Pay with Kiplinger’s Tax Withholding Calculator**

Every year most families prefer to give Uncle Sam a 12 month 0% interest loan on their tax refund regardless of whether they are strapped for money month to month. Giving the government year round access to money that is currently and rightfully YOURS, only restricts your financial options through life’s daily episodes. Kiplinger has an easy to use tool that will help you determine if you can *safely* increase your payroll withholdings and increase monthly control over your finances! Instead of planning a vacation with your return next year, why not give yourself the option of having a nice vacation this year? Or, instead of using a credit card to pay for unexpected car repairs, why not pay for it with cash that you have saved in an emergency fund? In order to use the tool, have a copy of your 2005 tax return available for reference. Please visit <http://www.kiplinger.com/personalfinance/tools/withholding/index.php> to access the withholding calculator.

**“You will never truly be powerful in life until you are powerful with your own money.”**

– Suze Orman