

***USING MUTUAL FUNDS TO BUILD A DIVERSIFIED PORTFOLIO:***  
**STUDENT HANDOUT**

Building a diversified portfolio of investments means making sure you have companies from different industries, companies with different growth characteristics and companies of different sizes. First, let's understand a few terms.

**Mutual Fund:** A study in the journal of the American Association of Individual Investors, *AII Journal*, shows that a properly diversified stock portfolio is one that holds shares of 400 companies, which is why most investors prefer to have money in different mutual funds. A mutual fund brings together money from many people and invests it on their behalf according to the strategy the fund follows. When you invest in a mutual fund, you are getting a small share of the many industries and stocks in which the fund has invested. An investor might be diversified by having money divided into a small-cap value fund, a small-cap growth fund, a mid-cap value fund, a mid-cap growth fund, a large-cap value fund and a large-cap growth fund.

**Value Stock:** These stocks tend to have lower prices when compared to the profits the company makes and may offer a good dividend.

**Growth Stock:** These stocks have higher revenue growth than the general economy. Growth companies tend to re-invest their profits rather than pay a dividend.

**Market Capitalization (Market Cap):** Indicates the size or worth of a company. A small-cap company is worth less than \$1 billion. A mid-cap company is worth between \$1 and \$6 billion, and a large-cap company, \$6 billion and higher. Small-cap companies tend to be more risky, but can offer great gains.

**Finding Mutual Funds**

- ∞ Click on [www.finance.yahoo.com/funds](http://www.finance.yahoo.com/funds).
- ∞ Click the link to the left titled "Fund Screener." Next to "Category," scroll down and click on "Large Growth." Next to "Morningstar Ratings," select three stars as a minimum. Scroll to the bottom and click "Find Funds."

1. List a large-cap growth fund you found.

<b>Fund Type</b>	<b>Fund Name</b>	<b>Symbol</b>	<b>Morningstar Rating</b>
Large Value			

2. Click on the ticker symbol for one of your funds. Now click the link to the left for "Performance." What is the year-to-date return on investment?
3. Click the link to the left titled "Holdings." Scroll down to "Top Holdings" to see what company stocks or bonds the fund has purchased. What are three company stocks the fund has purchased?
4. Scroll down again. What are the three industry sectors in which the fund has a higher percentage of investments?