

## Chapter 13 Investing in Mutual Funds

### True / False Questions

1. For individuals, stocks and bonds are safer choices than mutual funds because money is pooled from many investors for mutual funds.

True False

2. Many people invest in mutual funds through their retirement accounts.

True False

3. In 2008, investors in the U.S. could choose from more than 25,000 mutual funds.

True False

4. Mutual funds may carry a risk that they will substantially decrease in value.

True False

5. Mutual funds provide amateur management.

True False

6. Most mutual funds are closed-end funds.

True False

7. An exchange-traded fund has portfolio managers who actively research and select the stocks and other securities.

True False

8. An "A fund" mutual fund may have a commission as high as 9.5 percent.

True False

9. Fred wants to invest in a "no-load" fund. This means that the fund has no 12b-1 fees.

True False

10. An aggressive growth fund invests in companies with a long history of paying dividends.

True False

11. The difference between a global stock fund and an international fund is that the global stock fund invests in companies throughout the world, including the United States, and the international fund invests outside the United States.

True False

12. Stephanie wants to invest in a mutual fund that invests in companies within the same industry. She should put her money into a regional fund.

True False

13. A socially responsible fund invests in companies that produce tobacco, nuclear energy, and weapons in order to influence the board to change the companies' mission statements.

True False

14. The return for an intermediate U.S. government bond fund should be higher than for a junk bond fund.

True False

15. A family of funds is a grouping of funds that all invest in bonds or all in stocks.

True False

16. Open-end mutual funds have managers and closed-end funds do not.

True False

17. Most managed mutual funds outperform the Standard & Poor's 500 stock index.

True False

18. A 'good' fund manager has the ability to increase the share value when the economy is good and retain that value when the economy is bad.

True False

19. If Ryan wants to invest in an S&P 500 index fund, he should not expect his fund to behave differently than the underlying index.

True False

20. Brenda wants to invest in a fund that will outperform most others. On average, she would be better off to invest in an index fund instead of a managed closed-end fund.

True False

21. The only way to get reliable information about mutual funds is to pay a fee for it.

True False

22. An investment company sponsoring a mutual fund must give potential investors an annual report.

True False

23. A newspaper will provide more complete coverage of mutual funds compared to other sources.

True False

24. Many people own mutual funds as part of a 401(k) plan.

True False

25. A capital gain distribution is the profit that usually results when investors sell shares that have increased in value.

True False

26. Cynthia received an IRS Form 1099DIV. This form is sent at the end of each quarter to specify how much she received in dividends and capital gain distributions.

True False

27. A higher turnover ratio for a mutual fund can result in higher tax bills.

True False

**Multiple Choice Questions**

28. All of the following are advantages of a mutual fund *except*

- A. Diversification
- B. Professional management
- C. Loads of up to 8.5 percent
- D. Ease of buying and selling shares
- E. All of the above are advantages

29. What percentage of all mutual funds are closed-end funds?

- A. 7 percent
- B. 13 percent
- C. 36 percent
- D. 84 percent
- E. 93 percent

30. Which type of fund has the prices determined by factors of supply and demand like a stock?

- A. Closed-end funds
- B. SEC government funds
- C. Net asset value funds
- D. No-load fund
- E. Open-end funds

31. Which of the following is a fund that invests in stocks or securities contained in an index?

- A. Closed-end funds
- B. Exchange-traded funds
- C. Net asset value funds
- D. No-load fund
- E. Open-end funds

32. Whose shares are issued and redeemed by the investment company at the request of investors?

- A. Closed-end funds
- B. Exchange-traded funds
- C. Net asset value funds
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33. How is an ETF similar to a closed-end fund?

- A. Shares are traded on a securities exchange or in the over-the-counter market.
- B. An investor can purchase as little as one share of a fund.
- C. Prices are determined by supply and demand and the value of stocks and other investments contained in the portfolio.
- D. Prices are determined by investor expectations.
- E. All of the above are correct.

34. Which of the following is *unique* for a closed-end fund?

- A. It may contain stocks.
- B. Its value is determined by supply and demand.
- C. It is not actively managed by professional fund managers.
- D. Its price is equal to the net asset value.
- E. Its load cannot exceed 2 percent.

35. The net asset value is calculated as

- A.  $(\text{Liabilities} - \text{value of portfolio}) + \text{number of shares outstanding}$
- B.  $\text{Number of shares outstanding} / (\text{liabilities} - \text{value of portfolio})$
- C.  $(\text{Liabilities} - \text{value of portfolio}) / \text{number of shares outstanding}$
- D.  $(\text{Current market value of portfolio} - \text{liabilities}) / \text{number of shares outstanding}$
- E.  $\text{Number of shares outstanding} / (\text{value of portfolio} - \text{liabilities})$

36. Many mutual funds charge a commission when they are purchased by investors. These are called

- A. Load funds
- B. Closed-end funds
- C. Exchange-traded funds
- D. Net asset value funds
- E. Open-end funds

37. A load fund is allowed to collect a sales fee as high as

- A. 0 percent
- B. 2 percent
- C. 3 - 5 percent
- D. 8.5 percent
- E. 11.5 percent

38. The average load charge for mutual funds is

- A. 0 percent
- B. 2 percent
- C. 3 - 5 percent
- D. 8.5 percent
- E. 11.5 - 14.5 percent

39. The average upfront charge for a no-load mutual funds is

- A. 0 percent
- B. 2 percent
- C. 3 - 5 percent
- D. 8.5 percent
- E. 11.5 - 14.5 percent

40. A no-load mutual fund

- A. May allow investors to pay a sale charge
- B. Charges commission when you buy shares
- C. Uses salespeople to sell the funds
- D. Are available only via the Internet
- E. Can charge a 12b-1 fee of up to 0.25 percent of its assets

41. A contingent deferred sales load is known as all of the following *except*

- A. Back-end load
- B. B fund
- C. Redemption fee
- D. Only two of the above are correct
- E. All of the above are correct

42. A fee charged to defray the costs of advertising and marketing for a mutual fund is called a \_\_\_\_\_ fee.

- A. 3c
- B. 12b-1
- C. 14c-2
- D. 401(k)
- E. 403(b)

43. Which of the following is NOT correct about the 12b-1 fee?

- A. It is also known as a distribution fee
- B. A no-load fund can charge a 12b-1 fee of up to 0.25 percent of its assets
- C. It is often an ongoing fee that is charged on an annual basis
- D. It needs to be disclosed in the annual report but not in the prospectus
- E. It is used to defray the costs of advertising and marketing a mutual fund and commissions paid to a broker who sold shares in the mutual fund

44. Which class of shares charges a commission when shares are purchased?

- A. A
- B. B
- C. C
- D. K
- E. Q

45. Which class of shares charges a commission when withdrawals are made during the first five years?

- A. A
- B. B
- C. C
- D. K
- E. Q



46. Which class of shares does not charge a sales load or contingent deferred sales fee and charges a higher 12b-1 fee than the other classes?

- A. A
- B. B
- C. C
- D. K
- E. Q

47. Which of the following types of stock funds invests in stock issued by companies with a long history of paying dividends?

- A. Equity income funds
- B. Growth funds
- C. Index funds
- D. International funds
- E. Regional funds

48. Which of the following types of stock funds invests in stock issued by companies expecting higher than average revenue and earnings growth?

- A. Equity income funds
- B. Growth funds
- C. Index funds
- D. International funds
- E. Regional funds

49. Which of the following stock funds invests in the same companies included in the S&P 500?

- A. Equity income funds
- B. Growth funds
- C. Index funds
- D. International funds
- E. Regional funds

50. Which of the following stock funds invests in stock issued by companies throughout the world outside the United States?

- A. Equity income funds
- B. Growth funds
- C. Index funds
- D. International funds
- E. Regional funds

51. Which of the following stock funds invests in stock traded within one area of the world?

- A. Equity income funds
- B. Growth funds
- C. Index funds
- D. International funds
- E. Regional funds

52. Sally wants to invest in a fund that only invests in stock. Which of the following will meet her needs?

- A. Asset allocation funds
- B. Balance funds
- C. Junk bond funds
- D. Midcap funds
- E. Short-term corporate bond funds

53. Thomas wants to invest in a fund that invests in stock, bonds and money market instruments. Which of the following will meet his needs?

- A. Asset allocation funds
- B. Aggressive growth funds
- C. Junk bond funds
- D. Midcap funds
- E. Short-term corporate bond funds

54. Val wants to invest in a fund whose primary objective is to conserve principal, provide income, and provide long-term growth. Which of the following will best meet her needs?

- A. Cyclical funds
- B. Balanced funds
- C. Junk bond funds
- D. Midcap funds
- E. Short-term corporate bond funds

55. An example of a lifecycle fund is a fund that

- A. Assists investors with planning for retirement by a specific date
- B. Initially invests in conservative securities then changes to invest in more risk-oriented securities as time goes by
- C. Invests in shares of other mutual funds in order to increase diversification and asset allocation
- D. Has principal protection as its main objective
- E. None of the above is an example of a lifecycle fund

56. Time is an important factor when evaluating a mutual fund for which of the following?

- A. The existence of the underlying index
- B. The life of the companies in the fund
- C. The tenure of a fund manager
- D. The status of the economy
- E. None of the above

57. Which of the following is NOT correct?

- A. When evaluating a mutual fund, an important question to ask is: How long has the present fund manager been managing the fund?
- B. Over the years, the majority of managed mutual funds have failed to outperform the Standard & Poor's 500 stock index.
- C. Managed funds may be open-end funds or closed-end funds.
- D. A benchmark of a good fund manager is the ability to increase share value when the economy is good and retain that value when the economy is bad.
- E. A managed fund will outperform an index fund only 60 percent of the time.

58. Which of the following is NOT a way one can access reliable information about mutual funds on the internet?

- A. Find statistical information from the investment company's Web page.
- B. Obtain current market values for mutual funds by using a search engine, such as <http://finance.yahoo.com>.
- C. Review blogs from amateur investors about their favorite mutual funds.
- D. Research reports for mutual funds using professional advisory services.
- E. All of the above are reliable sources of information about mutual funds.

59. Professional advisory services provide detailed information on mutual funds. Which of the following is NOT a professional advisory service?

- A. Dun and Moody's
- B. Lipper Analytical Services
- C. Morningstar, Inc
- D. Value Line
- E. All of the above are professional advisory services that provide information on mutual funds

60. Professional advisory services provide research on mutual funds in all of the following areas *except*

- A. A historical profile
- B. Statistical information
- C. Performance, risk analysis, and portfolio analysis
- D. Investment philosophy
- E. All of the above are included by professional advisory services

61. Sally wants to invest in a mutual fund. The mutual fund must provide a(n) \_\_\_\_\_ to her.

- A. Analysis from a financial publication
- B. Annual report
- C. Prospectus
- D. Quarterly report
- E. Summary report

62. Which of the following provides some information about mutual funds for free and more detailed information at a cost?

- A. Financial publications
- B. Internet
- C. Mutual fund annual report
- D. Newspapers
- E. Professional advisory services

63. Which of the following provides a means of monitoring the value of your mutual fund investments, but not as much information as the other options listed to conduct a more complete evaluation?

- A. Financial publications
- B. Internet resources
- C. Mutual fund annual report
- D. Newspapers
- E. Professional advisory services

64. Which of the following contains a letter from the president of the investment company, detailed financial information, a schedule of investments, and a letter from the fund's independent auditors?

- A. Financial publications
- B. Internet
- C. Mutual fund annual report
- D. Newspapers
- E. Professional advisory services

65. How do mutual funds provide returns to their shareholders?

- A. Income dividends
- B. Capital gain distributions
- C. Capital gains
- D. All of the above
- E. None of the above

66. Cash paid to shareholders that is NOT related to the sale of securities in the fund's portfolio is called

- A. Capital gain distribution
- B. Income dividend
- C. Capital gain
- D. Mutual fund money
- E. Fund taxes

67. Payments to investors related to the sale of securities in the fund's portfolio are

- A. Capital gain distributions
- B. Income dividends
- C. Capital gains
- D. Mutual fund money
- E. Fund taxes

68. When you sell your shares in a mutual fund, you may receive a profit called

- A. Capital gain distribution
- B. Income dividend
- C. Capital gain
- D. Mutual fund money
- E. Fund taxes

69. Which of the following is true about mutual funds and taxes?

- A. Capital gain distributions are taxed when you sell your shares
- B. Income dividends are taxed quarterly
- C. Investment companies are required to send each shareholder a year-end statement that specifies how much each received in dividends and capital gain distributions
- D. Capital gains distributions are not taxed
- E. Taxes can be eliminated if you hold your mutual fund shares in your 401(k) retirement account

70. If you hold mutual fund shares in your Roth individual retirement account, the taxes will be

- A. Deferred
- B. Eliminated
- C. Evaluated
- D. Payable immediately
- E. None of the above

71. A problem with mutual funds is

- A. Professional management
- B. The possibility to eliminate taxes if held in a Roth individual retirement account
- C. Being required to report reinvested income dividends and capital gain distributions on your federal tax return
- D. Tax deferral if the fund is held in a retirement account like a 401(k) account
- E. The diversification offered to investors

72. All of the following are valid ways to purchase mutual funds except

- A. Regular account transaction
- B. Voluntary savings plan
- C. Contractual savings plan
- D. Reinvestment plan
- E. All of the ways listed are valid

73. Melinda wants to withdraw some money from her mutual fund. Which of the following is NOT an option available?

- A. Write a check
- B. Sell a certain number of shares each investment period
- C. Withdraw a fixed percentage of asset growth
- D. Withdraw all income dividend and capital gain distributions earned each investment period
- E. Withdraw all principal and leave interest dividends and capital gain distributions in the account

74. The investments in the Alamo Basics Contingency Fund have a current market value of \$730 million. The fund also has liabilities that total \$45 million. If this mutual fund has 25 million shares, what is the net asset value per share?

- A. \$1.80
- B. \$27.40
- C. \$29.20
- D. \$31.00
- E. \$26.50

75. The investments in the Already Been Counted Fund have a current market value of \$575 million. The fund also has liabilities that total \$35 million. If this mutual fund has 40 million shares, what is the net asset value per share?

- A. \$0.875
- B. \$13.50
- C. \$14.375
- D. \$15.25
- E. None of the above

76. The Anderson Balanced mutual fund charges a sales load of 5.25 percent. If you invest \$25,000, how much must you pay in commissions?

- A. \$5.25
- B. \$52.50
- C. \$131.25
- D. \$1,312.50
- E. \$4761.90

77. The Anderson Balanced mutual fund charges a sales load of 5.25 percent. If you invest \$25,000, how much of your investment will actually be used to purchase shares in the fund?

- A. \$20,238.10
- B. \$23,687.50
- C. \$24,868.75
- D. \$24,947.50
- E. \$25,000.00



78. Francesca withdrew \$8,000 from B shares that she owned in the Already Been Counted mutual fund within one year of her purchase. If she must pay a 5 percent contingent deferred sales fee, what will her total fee be?

- A. \$0
- B. \$4
- C. \$40
- D. \$400
- E. \$4000

79. Francesca withdrew \$8,000 from B shares that she owned in the Already Been Counted mutual fund within one year of her purchase. If she must pay a 5 percent contingent deferred sales fee, what amount will she actually receive?

- A. \$4,000
- B. \$7,600
- C. \$7,960
- D. \$7,996
- E. \$8,000

80. Nicholas purchased 150 shares of ABC Mutual Fund at \$13.50 and sold them one year later at a price of \$17.50. His total earnings were

- A. \$400
- B. \$600
- C. \$2,025
- D. \$2,625
- E. \$4,650

**Essay Questions**

81. What is a mutual fund?

82. What are the two primary reasons investors purchase mutual funds?

83. How is the price per share for closed-end mutual funds determined?

84. What is an ETF?

85. How is the price per share for open-end mutual funds determined?

86. Contrast a load fund and a no-load fund.

87. List and explain five types of stock funds.

88. Describe the investment strategy of a socially responsible fund.

89. What is a balanced fund?

90. What is an advantage of using a family of funds?

91. Why have lifestyle funds become so popular with investors?

92. Knowing what we know now, if you were an investor in 2007, what changes would you have made to your mutual fund investments in order to minimize your losses in the economic crisis that followed?

93. How is an index fund different from other mutual funds?

94. When you think about good and bad economic times, what are the responsibilities of a 'good' fund manager?

95. Compare the returns of managed funds and index funds?

96. Identify three items that should be found in a mutual fund prospectus.

97. What are three ways that shareholder can receive a return from a mutual fund?

98. If you want to eliminate all taxes from the sale of shares from your mutual funds, what should you do?

99. Explain the taxability of reinvested income dividends in a mutual fund.

100. What is the turnover ratio?

## Chapter 13 Investing in Mutual Funds **Answer Key**

### **True / False Questions**

1. (p. 429) For individuals, stocks and bonds are safer choices than mutual funds because money is pooled from many investors for mutual funds.

**FALSE**

Mutual funds are better choices for this reason.

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 1  
Topic: Investing in mutual funds*

2. (p. 429) Many people invest in mutual funds through their retirement accounts.

**TRUE**

*Bloom's: Comprehension  
Difficulty: Easy  
Learning Objective: 1  
Topic: Investing in mutual funds*

3. (p. 429) In 2008, investors in the U.S. could choose from more than 25,000 mutual funds.

**FALSE**

More than 9,300 funds are available.

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 1  
Topic: Investing in mutual funds*

4. (p. 429) Mutual funds may carry a risk that they will substantially decrease in value.

**TRUE**

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 1*

*Topic: Investing in mutual funds*

5. (p. 430) Mutual funds provide amateur management.

**FALSE**

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 1*

*Topic: Investing in mutual funds*

6. (p. 408) Most mutual funds are closed-end funds.

**FALSE**

Only about 7 percent of funds are closed-end funds.

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 1*

*Topic: Characteristics of funds*

7. (p. 431) An exchange-traded fund has portfolio managers who actively research and select the stocks and other securities.

**FALSE**

Closed-end funds fit this description.

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 1*

*Topic: Characteristics of funds*



8. (p. 433) An "A fund" mutual fund may have a commission as high as 9.5 percent.

**FALSE**

The maximum commission is 8.5 percent.

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

9. (p. 433) Fred wants to invest in a "no-load" fund. This means that the fund has no 12b-1 fees.

**FALSE**

A "no-load" fund may charge a 12b-1 fee of .25 percent or less of its assets.

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

10. (p. 438) An aggressive growth fund invests in companies with a long history of paying dividends.

**FALSE**

The definition is for an equity income fund.

*Bloom's: Comprehension*  
*Difficulty: Easy*  
*Learning Objective: 2*  
*Topic: Fund classifications*

11. (p. 438) The difference between a global stock fund and an international fund is that the global stock fund invests in companies throughout the world, including the United States, and the international fund invests outside the United States.

**TRUE**

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

12. (p. 439) Stephanie wants to invest in a mutual fund that invests in companies within the same industry. She should put her money into a regional fund.

**FALSE**

She should invest in a sector fund.

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 2  
Topic: Fund classifications*

13. (p. 439) A socially responsible fund invests in companies that produce tobacco, nuclear energy, and weapons in order to influence the board to change the companies' mission statements.

**FALSE**

Socially responsible funds do NOT invest in these companies.

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 2  
Topic: Fund classifications*

14. (p. 439) The return for an intermediate U.S. government bond fund should be higher than for a junk bond fund.

**FALSE**

The opposite is true.

*Bloom's: Analysis  
Difficulty: Hard  
Learning Objective: 2  
Topic: Fund classifications*

15. (p. 440) A family of funds is a grouping of funds that all invest in bonds or all in stocks.

**FALSE**

A family of funds is one investment company managing a group of mutual funds.

*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*  
*Topic: Fund classifications*

16. (p. 442) Open-end mutual funds have managers and closed-end funds do not.

**FALSE**

Managed funds may be open-end funds or closed-end funds.

*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

17. (p. 442) Most managed mutual funds outperform the Standard & Poor's 500 stock index.

**FALSE**

Most fail to outperform the S&P 500.

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

18. (p. 442) A 'good' fund manager has the ability to increase the share value when the economy is good and retain that value when the economy is bad.

**TRUE**

*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

19. (p. 443) If Ryan wants to invest in an S&P 500 index fund, he should not expect his fund to behave differently than the underlying index.

**TRUE**

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 3  
Topic: Evaluating funds*

20. (p. 443) Brenda wants to invest in a fund that will outperform most others. On average, she would be better off to invest in an index fund instead of a managed closed-end fund.

**TRUE**

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 3  
Topic: Evaluating funds*

21. (p. 443) The only way to get reliable information about mutual funds is to pay a fee for it.

**FALSE**

Free information is available at many sites on the Internet as well as in some magazines and newspapers.

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 3  
Topic: Evaluating funds*

22. (p. 446) An investment company sponsoring a mutual fund must give potential investors an annual report.

**FALSE**

Potential investors must receive a prospectus.

*Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 3  
Topic: Evaluating funds*

23. (p. 446) A newspaper will provide more complete coverage of mutual funds compared to other sources.

**FALSE**

Online sources including websites and periodicals provide a more complete basis for evaluating mutual fund investments.

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 3*

*Topic: Evaluating funds*

24. (p. 450) Many people own mutual funds as part of a 401(k) plan.

**TRUE**

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

25. (p. 450) A capital gain distribution is the profit that usually results when investors sell shares that have increased in value.

**FALSE**

A capital gain fits this description.

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

26. (p. 450) Cynthia received an IRS Form 1099DIV. This form is sent at the end of each quarter to specify how much she received in dividends and capital gain distributions.

**FALSE**

The Form 1099DIV is sent at the end of each year.

*Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 4  
Topic: Mutual fund transactions*

27. (p. 450) A higher turnover ratio for a mutual fund can result in higher tax bills.

**TRUE**

*Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 4  
Topic: Mutual fund transactions*

#### **Multiple Choice Questions**

28. (p. 431) All of the following are advantages of a mutual fund *except*

- A. Diversification
- B. Professional management
- C. Loads of up to 8.5 percent**
- D. Ease of buying and selling shares
- E. All of the above are advantages

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29. (p. 431) What percentage of all mutual funds are closed-end funds?

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30. (p. 431) Which type of fund has the prices determined by factors of supply and demand like a stock?

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- B. SEC government funds
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31. (p. 431) Which of the following is a fund that invests in stocks or securities contained in an index?

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- B.** Exchange-traded funds
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32. (p. 433) Whose shares are issued and redeemed by the investment company at the request of investors?

- A. Closed-end funds
- B. Exchange-traded funds
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- E.** Open-end funds

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 1*

*Topic: Characteristics of funds*

33. (p. 433) How is an ETF similar to a closed-end fund?

- A. Shares are traded on a securities exchange or in the over-the-counter market.
- B. An investor can purchase as little as one share of a fund.
- C. Prices are determined by supply and demand and the value of stocks and other investments contained in the portfolio.
- D. Prices are determined by investor expectations.
- E.** All of the above are correct.

*Bloom's: Analysis*

*Difficulty: Medium*

*Learning Objective: 1*

*Topic: Characteristics of funds*

34. (p. 431) Which of the following is *unique* for a closed-end fund?

- A. It may contain stocks.
- B.** Its value is determined by supply and demand.
- C. It is not actively managed by professional fund managers.
- D. Its price is equal to the net asset value.
- E. Its load cannot exceed 2 percent.

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 1*

*Topic: Characteristics of funds*



35. (p. 433) The net asset value is calculated as
- A.  $(\text{Liabilities} - \text{value of portfolio}) + \text{number of shares outstanding}$
  - B.  $\text{Number of shares outstanding}/(\text{liabilities} - \text{value of portfolio})$
  - C.  $(\text{Liabilities} - \text{value of portfolio})/\text{number of shares outstanding}$
  - D.**  $(\text{Current market value of portfolio} - \text{liabilities})/\text{number of shares outstanding}$
  - E.  $\text{Number of shares outstanding}/(\text{value of portfolio} - \text{liabilities})$

*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

36. (p. 433) Many mutual funds charge a commission when they are purchased by investors. These are called
- A.** Load funds
  - B. Closed-end funds
  - C. Exchange-traded funds
  - D. Net asset value funds
  - E. Open-end funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

37. (p. 433) A load fund is allowed to collect a sales fee as high as
- A. 0 percent
  - B. 2 percent
  - C. 3 - 5 percent
  - D.** 8.5 percent
  - E. 11.5 percent

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

Chapter 13 - Investing in Mutual Funds

38. (p. 433) The average load charge for mutual funds is

- A. 0 percent
- B. 2 percent
- C. 3 - 5 percent**
- D. 8.5 percent
- E. 11.5 - 14.5 percent

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

39. (p. 433) The average upfront charge for a no-load mutual funds is

- A. 0 percent**
- B. 2 percent
- C. 3 - 5 percent
- D. 8.5 percent
- E. 11.5 - 14.5 percent

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

40. (p. 433) A no-load mutual fund

- A. May allow investors to pay a sale charge
- B. Charges commission when you buy shares
- C. Uses salespeople to sell the funds
- D. Are available only via the Internet
- E. Can charge a 12b-1 fee of up to 0.25 percent of its assets**

*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

41. (p. 434) A contingent deferred sales load is known as all of the following *except*
- A. Back-end load
  - B. B fund
  - C. Redemption fee
  - D. Only two of the above are correct
  - E.** All of the above are correct

*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

42. (p. 434) A fee charged to defray the costs of advertising and marketing for a mutual fund is called a \_\_\_\_ fee.
- A. 3c
  - B.** 12b-1
  - C. 14c-2
  - D. 401(k)
  - E. 403(b)

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

43. (p. 435) Which of the following is NOT correct about the 12b-1 fee?
- A. It is also known as a distribution fee
  - B. A no-load fund can charge a 12b-1 fee of up to 0.25 percent of its assets
  - C. It is often an ongoing fee that is charged on an annual basis
  - D.** It needs to be disclosed in the annual report but not in the prospectus
  - E. It is used to defray the costs of advertising and marketing a mutual fund and commissions paid to a broker who sold shares in the mutual fund

*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

44. (p. 435) Which class of shares charges a commission when shares are purchased?

- A. A
- B. B
- C. C
- D. K
- E. Q

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

45. (p. 435) Which class of shares charges a commission when withdrawals are made during the first five years?

- A. A
- B. B
- C. C
- D. K
- E. Q

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

46. (p. 435) Which class of shares does not charge a sales load or contingent deferred sales fee and charges a higher 12b-1 fee than the other classes?

- A. A
- B. B
- C. C
- D. K
- E. Q

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

47. (p. 439) Which of the following types of stock funds invests in stock issued by companies with a long history of paying dividends?

- A.** Equity income funds
- B. Growth funds
- C. Index funds
- D. International funds
- E. Regional funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

48. (p. 439) Which of the following types of stock funds invests in stock issued by companies expecting higher than average revenue and earnings growth?

- A. Equity income funds
- B.** Growth funds
- C. Index funds
- D. International funds
- E. Regional funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

49. (p. 439) Which of the following stock funds invests in the same companies included in the S&P 500?

- A. Equity income funds
- B. Growth funds
- C.** Index funds
- D. International funds
- E. Regional funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

50. (p. 439) Which of the following stock funds invests in stock issued by companies throughout the world outside the United States?

- A. Equity income funds
- B. Growth funds
- C. Index funds
- D.** International funds
- E. Regional funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

51. (p. 439) Which of the following stock funds invests in stock traded within one area of the world?

- A. Equity income funds
- B. Growth funds
- C. Index funds
- D. International funds
- E.** Regional funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

52. (p. 439) Sally wants to invest in a fund that only invests in stock. Which of the following will meet her needs?

- A. Asset allocation funds
- B. Balance funds
- C. Junk bond funds
- D.** Midcap funds
- E. Short-term corporate bond funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

53. (p. 439) Thomas wants to invest in a fund that invests in stock, bonds and money market instruments. Which of the following will meet his needs?

- A.** Asset allocation funds
- B. Aggressive growth funds
- C. Junk bond funds
- D. Midcap funds
- E. Short-term corporate bond funds

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

54. (p. 439) Val wants to invest in a fund whose primary objective is to conserve principal, provide income, and provide long-term growth. Which of the following will best meet her needs?

- A. Cyclical funds
- B.** Balanced funds
- C. Junk bond funds
- D. Midcap funds
- E. Short-term corporate bond funds

*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 2*  
*Topic: Fund classifications*

55. (p. 440) An example of a lifecycle fund is a fund that

- A.** Assists investors with planning for retirement by a specific date
- B. Initially invests in conservative securities then changes to invest in more risk-oriented securities as time goes by
- C. Invests in shares of other mutual funds in order to increase diversification and asset allocation
- D. Has principal protection as its main objective
- E. None of the above is an example of a lifecycle fund

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

56. (p. 441) Time is an important factor when evaluating a mutual fund for which of the following?

- A. The existence of the underlying index
- B. The life of the companies in the fund
- C. The tenure of a fund manager**
- D. The status of the economy
- E. None of the above

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 3*

*Topic: Evaluating funds*

57. (p. 441) Which of the following is NOT correct?

- A. When evaluating a mutual fund, an important question to ask is: How long has the present fund manager been managing the fund?
- B. Over the years, the majority of managed mutual funds have failed to outperform the Standard & Poor's 500 stock index.
- C. Managed funds may be open-end funds or closed-end funds.
- D. A benchmark of a good fund manager is the ability to increase share value when the economy is good and retain that value when the economy is bad.
- E. A managed fund will outperform an index fund only 60 percent of the time.**

*Bloom's: Analysis*

*Difficulty: Medium*

*Learning Objective: 3*

*Topic: Evaluating funds*

58. (p. 443) Which of the following is NOT a way one can access reliable information about mutual funds on the internet?

- A. Find statistical information from the investment company's Web page.
- B. Obtain current market values for mutual funds by using a search engine, such as <http://finance.yahoo.com>.
- C. Review blogs from amateur investors about their favorite mutual funds.**
- D. Research reports for mutual funds using professional advisory services.
- E. All of the above are reliable sources of information about mutual funds.

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 3*

*Topic: Evaluating funds*



59. (p. 443) Professional advisory services provide detailed information on mutual funds. Which of the following is NOT a professional advisory service?

- A. Dun and Moody's
- B. Lipper Analytical Services
- C. Morningstar, Inc
- D. Value Line
- E. All of the above are professional advisory services that provide information on mutual funds

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

60. (p. 446) Professional advisory services provide research on mutual funds in all of the following areas *except*

- A. A historical profile
- B. Statistical information
- C. Performance, risk analysis, and portfolio analysis
- D. Investment philosophy
- E. All of the above are included by professional advisory services

*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

61. (p. 446) Sally wants to invest in a mutual fund. The mutual fund must provide a(n) \_\_\_\_\_ to her.

- A. Analysis from a financial publication
- B. Annual report
- C. Prospectus
- D. Quarterly report
- E. Summary report

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

62. (p. 443) Which of the following provides some information about mutual funds for free and more detailed information at a cost?

- A. Financial publications
- B. Internet
- C. Mutual fund annual report
- D. Newspapers
- E.** Professional advisory services

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

63. (p. 448) Which of the following provides a means of monitoring the value of your mutual fund investments, but not as much information as the other options listed to conduct a more complete evaluation?

- A. Financial publications
- B. Internet resources
- C. Mutual fund annual report
- D.** Newspapers
- E. Professional advisory services

*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

64. (p. 446) Which of the following contains a letter from the president of the investment company, detailed financial information, a schedule of investments, and a letter from the fund's independent auditors?

- A. Financial publications
- B. Internet
- C.** Mutual fund annual report
- D. Newspapers
- E. Professional advisory services

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

65. (p. 450) How do mutual funds provide returns to their shareholders?

- A. Income dividends
- B. Capital gain distributions
- C. Capital gains
- D.** All of the above
- E. None of the above

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

66. (p. 450) Cash paid to shareholders that is NOT related to the sale of securities in the fund's portfolio is called

- A. Capital gain distribution
- B.** Income dividend
- C. Capital gain
- D. Mutual fund money
- E. Fund taxes

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

67. (p. 450) Payments to investors related to the sale of securities in the fund's portfolio are

- A.** Capital gain distributions
- B. Income dividends
- C. Capital gains
- D. Mutual fund money
- E. Fund taxes

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

68. (p. 450) When you sell your shares in a mutual fund, you may receive a profit called

- A. Capital gain distribution
- B. Income dividend
- C. Capital gain**
- D. Mutual fund money
- E. Fund taxes

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

69. (p. 452) Which of the following is true about mutual funds and taxes?

- A. Capital gain distributions are taxed when you sell your shares
- B. Income dividends are taxed quarterly
- C. Investment companies are required to send each shareholder a year-end statement that specifies how much each received in dividends and capital gain distributions**
- D. Capital gains distributions are not taxed
- E. Taxes can be eliminated if you hold your mutual fund shares in your 401(k) retirement account

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

70. (p. 452) If you hold mutual fund shares in your Roth individual retirement account, the taxes will be

- A. Deferred
- B. Eliminated**
- C. Evaluated
- D. Payable immediately
- E. None of the above

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

71. (p. 452) A problem with mutual funds is

- A. Professional management
- B. The possibility to eliminate taxes if held in a Roth individual retirement account
- C.** Being required to report reinvested income dividends and capital gain distributions on your federal tax return
- D. Tax deferral if the fund is held in a retirement account like a 401(k) account
- E. The diversification offered to investors

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

72. (p. 453) All of the following are valid ways to purchase mutual funds except

- A. Regular account transaction
- B. Voluntary savings plan
- C. Contractual savings plan
- D. Reinvestment plan
- E.** All of the ways listed are valid

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

73. (p. 454) Melinda wants to withdraw some money from her mutual fund. Which of the following is NOT an option available?

- A. Write a check
- B. Sell a certain number of shares each investment period
- C. Withdraw a fixed percentage of asset growth
- D. Withdraw all income dividend and capital gain distributions earned each investment period
- E.** Withdraw all principal and leave interest dividends and capital gain distributions in the account

*Bloom's: Analysis*

*Difficulty: Medium*

*Learning Objective: 4*

*Topic: Mutual fund transactions*

74. (p. 433) The investments in the Alamo Basics Contingency Fund have a current market value of \$730 million. The fund also has liabilities that total \$45 million. If this mutual fund has 25 million shares, what is the net asset value per share?

- A. \$1.80
- B. \$27.40**
- C. \$29.20
- D. \$31.00
- E. \$26.50

(Current market value of the fund's portfolio - liabilities)/number of shares outstanding = (\$730 million - \$45 million)/25 million = \$685 million/25 million = \$27.40

*Bloom's: Application*  
*Difficulty: Easy*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

75. (p. 433) The investments in the Already Been Counted Fund have a current market value of \$575 million. The fund also has liabilities that total \$35 million. If this mutual fund has 40 million shares, what is the net asset value per share?

- A. \$0.875
- B. \$13.50**
- C. \$14.375
- D. \$15.25
- E. None of the above

(Value of the fund's portfolio - liabilities)/number of shares outstanding = (\$575 million - \$35 million)/40 million = \$540 million/40 million = \$13.50

*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

76. (p. 433) The Anderson Balanced mutual fund charges a sales load of 5.25 percent. If you invest \$25,000, how much must you pay in commissions?

- A. \$5.25
- B. \$52.50
- C. \$131.25
- D. \$1,312.50**
- E. \$4761.90

$$\text{Total commissions} = \text{investment} \times \text{load} = \$25,000 \times .0525 = \$1,312.50$$

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 1*

*Topic: Characteristics of funds*

77. (p. 433) The Anderson Balanced mutual fund charges a sales load of 5.25 percent. If you invest \$25,000, how much of your investment will actually be used to purchase shares in the fund?

- A. \$20,238.10
- B. \$23,687.50**
- C. \$24,868.75
- D. \$24,947.50
- E. \$25,000.00

$$\text{Total commissions} = \text{investment} \times \text{load} = \$25,000 \times .0525 = \$1,312.50$$

$$\text{Total purchased} = \text{investment} - \text{total commissions} = \$25,000 - \$1,312.50 = \$23,687.50$$

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 1*

*Topic: Characteristics of funds*

78. (p. 434) Francesca withdrew \$8,000 from B shares that she owned in the Already Been Counted mutual fund within one year of her purchase. If she must pay a 5 percent contingent deferred sales fee, what will her total fee be?

- A. \$0
- B. \$4
- C. \$40
- D. \$400**
- E. \$4000

Total contingent deferred sales fee = investment  $\times$  load =  $\$8,000 \times .05 = \$400.00$

*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

79. (p. 434) Francesca withdrew \$8,000 from B shares that she owned in the Already Been Counted mutual fund within one year of her purchase. If she must pay a 5 percent contingent deferred sales fee, what amount will she actually receive?

- A. \$4,000
- B. \$7,600**
- C. \$7,960
- D. \$7,996
- E. \$8,000

Total contingent deferred sales fee = amount of withdrawal  $\times$  load =  $\$8,000 \times .05 = \$400.00$   
Amount received = amount of withdrawal - contingent deferred sales fee =  $\$8,000 - \$400 = \$7,600$

*Bloom's: Application*  
*Difficulty: Hard*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*



80. (p. 451) Nicholas purchased 150 shares of ABC Mutual Fund at \$13.50 and sold them one year later at a price of \$17.50. His total earnings were

- A. \$400
- B. \$600**
- C. \$2,025
- D. \$2,625
- E. \$4,650

Total earnings = # shares  $\times$  (sale price - purchase price) =  $150 \times (\$17.50 - \$13.50) = \$600$

*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 4*  
*Topic: Mutual fund transactions*

#### **Essay Questions**

81. (p. 428) What is a mutual fund?

A mutual fund is an investment company that pools money of many investors to invest in a variety of securities.

*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

82. (p. 430) What are the two primary reasons investors purchase mutual funds?

The two main reasons are professional management and diversification.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

83. (p. 431) How is the price per share for closed-end mutual funds determined?

The prices of shares are determined by the factors of supply and demand, by the value of stocks and other investments contained in the fund's portfolio, and by investor expectations.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

84. (p. 431) What is an ETF?

An ETF is an exchange-traded fund, a fund that invests in stocks or other securities in a specific index.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

85. (p. 433) How is the price per share for open-end mutual funds determined?

The price per share is the net asset value (NAV). NAV is equal to the current market value of securities contained in the portfolio less the liabilities divided by the number of shares outstanding.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

86. (p. 433) Contrast a load fund and a no-load fund.

A load fund is a mutual fund in which investors pay a commission every time they purchase shares. A no-load fund does not require a commission; however, it may charge a 12b-1 fee.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 1*  
*Topic: Characteristics of funds*

87. (p. 438) List and explain five types of stock funds.

All of the following are stock funds:

- Aggressive growth funds
- Equity income funds
- Global stock funds
- Growth funds
- Index funds
- International funds
- Large-cap funds
- Midcap funds
- Regional funds
- Sector funds
- Small-cap funds
- Socially responsible funds

For a description of each fund, see the material contained in the section Classification of Mutual Funds.

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

88. (p. 439) Describe the investment strategy of a socially responsible fund.

A socially responsible fund avoids investing in companies that may cause harm to people, animals, and the environment. Typically, these funds do not invest in companies that produce tobacco, nuclear energy, or weapons nor do they invest in companies that have a history of discrimination.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

89. (p. 439) What is a balanced fund?

A balanced fund invests in both stocks and bonds. Its primary objective is conserving principal, providing income, and providing long-term growth.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

90. (p. 440) What is an advantage of using a family of funds?

A family of funds exists when one investment company manages a group of mutual funds with different financial objectives. The investment may offer exchange privileges and the convenience of switching investments.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

91. (p. 440) Why have lifestyle funds become so popular with investors?

Lifestyle, or lifecycle, funds have an asset allocation that changes through time. Initially, these funds invest in more risk-oriented securities then become increasingly conservative and income oriented. They are popular when an investor is planning for retirement by a specific date.

*Bloom's: Analysis*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Topic: Fund classifications*

92. (p. 441) Knowing what we know now, if you were an investor in 2007, what changes would you have made to your mutual fund investments in order to minimize your losses in the economic crisis that followed?

If you would have known that an economic crisis was coming, you would have changed your investments to be more conservative in order to conserve your investment dollars and minimize your losses.

*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

93. (p. 441) How is an index fund different from other mutual funds?

An index fund has a manager; however, his or her responsibility is to "mirror" the underlying index. Other mutual funds have professional managers whose responsibility is to actively manage the fund to earn returns. Also, the expense ratio for an index fund is smaller when compared to the expense ratio for managed funds.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

94. (p. 441) When you think about good and bad economic times, what are the responsibilities of a 'good' fund manager?

A good fund manager has the ability to increase share value when the economy is good and retain that value when the economy is bad.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

95. (p. 441) Compare the returns of managed funds and index funds?

Index funds outperform managed funds as often as 80 percent of the time. Two factors account for an index fund's performance. First, index funds are a mirror-image of an index. Historically, an index like the Standard and Poor's 500 stock index outperforms most managed funds. Second, index funds have lower expense ratios - which can make a significant difference over time.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

96. (p. 446) Identify three items that should be found in a mutual fund prospectus.

A prospectus includes:

- Fund's objective
- Fee table summarizing the fees a fund charges
- A statement describing the risk factor associated with the fund
- A description of the fund's past performance
- A statement describing the type of investments contained in the fund's portfolio
- Information about:
  - Dividends, distribution, and taxes
  - The fund's management
  - Limitations or requirements, if any, the fund must honor when choosing investments
  - How often the fund's investment portfolio changes
- The process an investor can use to buy or sell shares in the fund
- A description of services provided to investors and fees for services, if any

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Topic: Evaluating funds*

97. (p. 450) What are three ways that shareholder can receive a return from a mutual fund?

The three ways are: income dividends, capital gain distributions, and capital gains.

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*  
*Topic: Mutual fund transactions*

98. (p. 452) If you want to eliminate all taxes from the sale of shares from your mutual funds, what should you do?

You should hold your mutual fund in a Roth individual retirement account.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 4*  
*Topic: Mutual fund transactions*

99. (p. 452) Explain the taxability of reinvested income dividends in a mutual fund.

Reinvested income dividends are taxable and must be reported on a federal tax return as current income in the year they are earned.

*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 4*  
*Topic: Mutual fund transactions*

100. (p. 452) What is the turnover ratio?

The turnover ratio measures the percentage of a fund's holdings that have changed or "been replaced" during a 12-month period of time. Unless you are using a fund in a 401(k) or 403(b) retirement account or some type of individual retirement account, a mutual fund with a high turnover ratio can result in higher income tax bills.

*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*  
*Topic: Mutual fund transactions*