Fidelity Investments®

Getting you there

Getting started with mutual funds

What are stocks, bonds, and short-term investments?

Stocks, bonds, and short-term investments are securities. They're the building blocks of investing. Mutual funds invest in these securities as a way to meet their investment objectives.

What is a mutual fund?

A mutual fund is a type of investment. It allows a group of people with similar investment goals to pool their money and invest it in a fund, instead of investing on their own. Investment professionals called portfolio managers manage mutual funds. A fund's portfolio manager invests fund assets in securities, such as stocks, bonds, and short-term investments.

Stocks

A share of stock (also called equity) represents ownership in a company. When you own units in a mutual fund that invests in stocks, you essentially own a small percentage of all the stocks that the fund owns. When a fund sells the stocks it owns for a higher price than it paid for them, it earns a profit, or "capital gain." On the other hand, if it sells at a lower price, it incurs a "capital loss." Stocks can move up and down on a daily basis. Although past performance is no guarantee of future results, historically, stocks have provided better returns or earnings than the other two types of investments over the long term. With stock mutual funds, unit price and return will vary.

Bonds

Simply put, a bond is a loan from an investor to the company or government agency that issued the bond. Corporations, governments, or municipalities (cities and towns, etc.) issue bonds as a way to raise money.

When you own units in a mutual fund that invests in bonds, you essentially own a small percentage of all the bonds that the fund owns. Mutual funds that invest primarily in bonds can move up and down in value, often in response to current interest rates, but their unit price moves more modestly than that of stock funds. Again, unit price and return will vary.

Fast Fact:

You can obtain detailed information on the various funds Fidelity offers by visiting ***www.fidelity.ca***, and clicking on the link for "**Individual Investors**." At the top of the next page, guide your cursor to the tab marked "**Funds & Prices,**" and then click on the "**Performance Update**" subtab. There you will find a list of all Fidelity funds available in Canada, along with their historical returns. By clicking on the name of the fund you wish to research, you will find information such as the fund's mandate, the fund manager's investment style, as well as the fund's Top-10 holdings as of a recent date.

Short-term investments

These include investments such as Guaranteed Investment Certificates ("GICs"), Treasury Bills ("T-Bills"), and other so-called "short-term debt." When you own units in a mutual fund that invests in short-term investments, you essentially own a small percentage of all the short-term investments that the fund owns. Mutual funds that invest primarily in short-term investments, often called money market funds, generally work to keep a stable $10 unit price, but do not guarantee that they will be able to do so. They are also neither insured nor guaranteed by the Canada Deposit Insurance Corporation (CDIC).

The benefits of investing in mutual funds

The reason mutual funds have become so popular is that they offer a simple way to invest in today's increasingly complex financial marketplace. This is due in large part to the advantages of diversification and professional management.

Diversification

Most financial professionals say it's better to own a variety of investments than to depend on the success of just one or two. That way, poor performance from one investment in the fund has a chance of being offset by better performance of another investment in the fund. In other words, diversifying your investments may help you spread the risk. By investing in many different securities, mutual funds offer investors the opportunity to diversify. However, diversification does not ensure a profit, nor does it guarantee against loss.

Professional management

Every mutual fund is managed by a portfolio manager who is extensively trained and dedicated to managing each fund. The portfolio manager searches for the best securities for the fund, given the fund's stated goal or investment objective. This means you don't need to be an investment expert or spend a lot of time researching different stocks and bonds. Keep in mind, though, that it is always your responsibility to select and monitor your investments, ensuring they continue to meet your investment objectives.

What do mutual funds invest in?

Each mutual fund has its own defined "investment objective" – a statement of what it is designed to do for its investors. What a mutual fund will invest in depends on its objective. A fund may invest entirely in stocks, bonds, or short-term investments. On the other hand, it can invest in any combination of all three. Generally speaking, the chart below shows you the characteristics of the different kinds of investment objectives.

Investment Spectrum

More conservative
Potentially less investment risk and more inflation risk

More aggressive
Potentially more investment risk and less inflation risk

	Money Market	Fixed Income	Balanced or Asset Allocated	Stock (also called equity)
What the fund primarily buys	Short-term instruments, like GICs, T-bills, or other short-term debt	Bonds (government and corporate)	A combination of stocks, bonds, and money-market instruments	Stocks
How the fund tries to make money	Earning interest from short-term instruments	Earning interest from bonds held within the fund, and also by selling the actual bonds for more than it paid for them	Selling its stock or bond holdings for more than it paid for them, and earning dividends or capital gains from stocks, or interest from bonds	Selling its stock holdings for more than it paid for them and earning dividends or capital gains from stocks
General risk level	Low	Low to moderate	Moderate to high	High
Earnings potential	Low	Low to moderate	Moderate to high	High
Other characteristics	Work to keep a stable $10 unit price, but do not guarantee that they will be able to do so. Yield will vary	Return and unit price will vary	Return and unit price will vary	Return and unit price will vary

How do mutual funds earn money?

A mutual fund has the potential to earn money for you in three ways. The first two, dividends, interest, and capital gains, are through the profits earned by the fund and then passed on to you. The third way the fund can earn money is through capital appreciation – the increase in value of the units you own in a fund.

What is a prospectus?

Every mutual fund issues a prospectus, a booklet that summarizes all the details of the fund. A prospectus will tell you the fund's objective, the kinds of securities it buys, who manages the fund, what its fees and expenses are, and other important information. Always read a fund's prospectus before investing.

Dividends, interest, and capital gains

If the fund's stock holdings pay dividends or its bonds pay interest, the fund distributes the money to you. If the fund sells a stock or bond at a profit or at a capital gain, it distributes the money to you.

Dividends, interest, and capital gains distributions are all reinvested in your workplace plan, where they purchase additional units of the fund that paid the distribution.

Capital appreciation

If the market value of the fund increases, you may sell your shares at a higher price than you bought them for.

Now you know the basics of investing in mutual funds. When compared to the many hours it might take you to do your own research on individual securities, investing in mutual funds is a smart choice. So what are you waiting for? Get started today!

Still not participating in your workplace retirement savings plan? You are missing out on plan benefits. Enrol today!
You can enrol via the Internet at ***www.fidelity.ca***, by clicking on ***Workplace Savings***, followed by the link marked **NetBenefits℠ – Web Enrolment**. From there, you will be prompted to enter your account number. If you need to obtain your account number, or should you wish to enrol by telephone, you may do so by calling our Employee Service Centre, at 1-800-817-5441. Representatives are available to assist you Monday to Friday, 8:00 a.m. to 8:00 p.m. Eastern Time.

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