No-Frills Money Skills Video Series
Episode 5: Mutual Benefit (9:17)

View Episode 5 at https://www.stlouisfed.org/education/no-frills-money-skills-video-series/episode-5-mutual-benefit.

1. How do financial professionals generally define the term “investment”?

They use the term investment to describe an asset that is purchased with the hope that it will gain value and provide a financial return.

2. List several factors contributing to an investor’s level of risk tolerance.

Age, income, personality, the investment purpose, and when the money is needed

3. What is an investment company?

It is a company that collects and pools money from many investors and invests in stocks, bonds, and other assets.

4. What are three main types of investment companies?

Closed-end funds, unit investment trusts, and mutual funds

5. What is a mutual fund?

It is an open-end company that pools investors’ money then issues shares to its investors. These shares are proportionate to the fund’s holdings and the income those holdings generate. (For example, owning a single share of 100 total shares means you would receive 1/100th [or .01 percent] of the fund’s profit.)

6. What is an actively managed fund?

It is a fund managed by a group of investment professionals, or managers, that buy and sell securities within the fund and attempt to make it profitable.

7. What is an index mutual fund?

It is a fund that attempts to replicate the returns of a particular index, like the S&P 500 or Dow Jones Industrial Average. (An index is a group of stocks or other investment instruments used to replicate the fluctuations of a particular market. It’s a mathematical construct, or weighted average, based on the various prices of stocks.)

8. What types of fees, or loads, might mutual funds charge?

Sales charges are fees that investors pay to a mutual fund to pay broker commissions. A front-end load is a sales fee paid at the time of purchase. A deferred sales load is paid when shares are sold. No-load funds do not charge loads, as the name implies. (If you are willing to do your own research and make your own purchases, without the benefit of an adviser, you might consider no-load funds.)