



The Mutual Fund Buying Checklist

How to Choose a Mutual Fund that will Improve Your Portfolio

When Americans want to own a mutual fund in their portfolio, they sometimes get shell shocked about how many thousands there are in the marketplace. For those Americans who have moved to Israel who still want to buy U.S. mutual funds, they get another shock: Many fund companies won't sell to people living outside the United States. If you decide to investigate a mutual fund, start with this checklist (and be sure to read the prospectus before investing):

- Don't waste your time going any further on this checklist until you determine whether you can buy the fund if you live in Israel.
- Fund manager tenure: If you start examining the results of a fund over many years, but the guy running it was just hired last year, you're not getting good information. Examine fund results only for as long as the manager has been there.
- Turnover rate: A mutual fund's expense ratio, which you should also check, is often higher than you can easily see. This is because the fund itself must pay trading costs. A fund that trades a lot will have more costs, and that will diminish your returns.
- Tax implications: If you will own the mutual fund in your IRA (Individual Retirement Account), it doesn't much matter. But if you buy it in a taxable account and the fund keeps spinning off capital gains distributions, you will have to pay tax on that.
- Philosophy: Do you agree with the philosophy of the fund? Along with examining investment strategy, make sure that the fund invests in areas that don't offend you (like you may not want to own certain sectors or countries).
- Diversification: If you're only going to buy one or two funds, will your overall portfolio have enough diversification?
- Is the "mutual fund" the right tool? Sometimes people would be better off with ETFs, individual bonds, money managers, or some other type of investment vehicle.

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Date of show: 08/16/2018