



## Do Mutual Funds Increase the Risk Level of Your Portfolio?

"It looks to me like your account is risky," I told a prospective client recently. She had given me a copy of the statement from her U.S. brokerage account to review, and when I pointed out the level of risk, she seemed surprised. "How could that be? I told my broker in America that I only wanted safe investments."

>>>>If you have stocks, you have risk  
I directed her to look at the pie chart on her statement that showed 30% of her portfolio was in stocks. "You see, Doug, only 30% of my money is in the stock market. It's not too risky." I then pointed out that the pie chart indicated over 60% in mutual funds and ETF's (Exchange Traded Funds). "Do you know how those are invested?" She smiled confidently and said, "That's the safe stuff. You see, the bulk of my investment portfolio is invested in funds." She didn't realize that the mutual funds and ETFs were also invested in stocks.

>>>>Aren't funds safe?  
Although mutual funds often provide diversification, which helps to avoid the "don't put all your eggs in one basket" problem, if they contain stocks, the funds themselves carry a real measure of risk. If you own a mutual fund that has equities in it, like an index fund, a drop in the market means you can lose money in your funds.

>>>>Don't wait to find out how risky your portfolio is  
It's too bad this woman waited for such a long time to review the account that her broker was handling for her. Had she come to me sooner, she would have realized that almost a third of her account was invested in individual stocks, and beyond that, another 60% was fully exposed to the stock market in index funds that tracked global stock markets.

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