

Do Mutual Funds Still Work?

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Do Mutual Funds Still Work?

- The short answer: Yes
- The confusing answer: It depends on what you mean by “mutual funds”
- The intermediate answer: They’re not perfect
- The skeptical answer: Not all the time, and especially not in this market
- The broker’s answer: I can tell you, for a small sales load

Do Mutual Funds Still Work?

- The passive investor's answer: Only when they are index funds
- The active investor's answer: Maybe, I'm still moving my money around trying to find the right one
- The 401(k) plan investor's answer: They did in the 1990s
- The ETF investor's answer: Not anymore

Do Mutual Funds Still Work?

- The long answer: Yes ...

BUT ...

You have to decide if you want traditional funds or ETFs, active or passive investments (or both); you have to accept that they're not perfect, and that they won't all work all the time; you have to forget about how they worked in the 1990s, and you must take steps to make them work for you now.

What are funds supposed to do?

1) Provide diversification

2) And professional management

3) At a reasonable price

What do most funds do today?

- Provide diversification ...
within an industry, sector, style or market capitalization range
- And professional management ...
or at least a professional philosophy
- At a reasonable price ...
or at least something that people in the financial-services biz believe is reasonable

Fund decisions you must make

- What type(s) of fund do I need?
- Who picks my asset allocation, me or the manager?
- Active or passive?
- Traditional fund or ETF?
- What are my return expectations?
- What are the risks?
- Does this fund work with my other funds?

What about the problems with funds?

- Management scandals
- High costs
- Poor performance
- Lack of transparency
- Hard to analyze
- Too many choices
- Hard to have faith in them