

Look for talented money managers rather than hot funds

(NC) There are as many mutual funds available in Canada today as there are stocks listed on the Toronto Stock Exchange.

The result is that for many individuals selecting the specific mutual funds for an investment portfolio can be a complex and often bewildering process.

If you own mutual funds or are considering investing in them, for the first time, here are three key pointers which will assist in making investment choices.

It's time in the market, not market timing.

The idea of timing the market is seductively easy to believe in.

We all find ourselves in a position where we want to get our money out of the market before the next correction or crash.

This is extremely difficult for even the most seasoned market expert to do.

A market timing strategy requires making two decisions correctly when to get out, and then when to get back in, often a more difficult call than the first one.

The longer an investor's money remains invested, the more likely they are to be rewarded, and

the less uncertain the outcome of that investment.

For example, take a look at historical information on the TSE 300 index dating back to 1973. If an investor had invested money in the TSE 300 index for only 12 months and his or her timing was particularly poor, the worst historical return would have been a loss of 39.16 per cent.

If this same investor's time horizon was extended out to five years, there was not a single period with a negative return.

Furthermore, the average return over a five-year holding period would have turned a \$1,000 investment into over \$1,800.

One of the keys to successful mutual fund investing, is to invest in the market over a long-term time horizon of at least five years or longer. This provides the opportunity to participate in market gains while reducing the risk of any downside.

Look for talented money managers rather than hot funds

Investing in a mutual fund is about hiring professional money managers to invest in certain markets using a specific management style or philosophy.

Successfully investing in mutual funds relies to a large extent on the selection of those money managers.

Looking at past performance can be informative, but it cannot necessarily be relied upon to predict

future results.

It also doesn't tell you why a specific manager has or has not been successful — perhaps a particular sector or region of the world did particularly well in the recent past, or perhaps a certain style of investing is more favourable than another in certain market conditions.

Rather than just trying to select the hot funds, a solid understanding of the money manager, their discipline, style and potential to repeat past results can lead to better investment decisions.

A pre-authorization contribution plan averages out the cost of mutual funds and can lead to higher returns.

Set up a pre-authorized contribution plan

Sir John Templeton has been quoted as saying that the best time to invest in the market is whenever you have the money.

One of the best ways for an investor to avoid investing at a market top and to grow an investment plan, particularly an RRSP, is to set up a Pre-Authorized Contribution plan.

This allows mutual fund investors to regularly and systematically contribute to and grow mutual fund investments.

Most importantly, investors gain the benefit of dollar cost averaging. This means that automatically, an investor would end up purchasing more units of a fund when the price is down, and less when the price is up.

Over time, this averages out the cost of your units in mutual funds, which can lead to higher returns over time.



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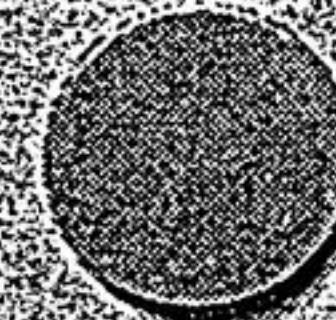
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