

## Test Your Mutual Fund IQ

The subject matter, both the questions and the explanatory answers, included in the Mutual Fund IQ Quiz address the basics of fund investing. There are no trick questions or trivia. However, the questions are structured to make you think, so take your time. The brief explanations to the questions (see Part II), taken as a whole, represent a mini-course on the fundamentals of what fund investors need to know.

### **Part I: The Quiz (Circle the letter for your answers. See Part II to check your answers.)**

1. A mutual fund's performance is best measured by:
  - (a) Price appreciation and net asset value.
  - (b) Total return.
  - (c) Yield and capital gains distributions.
  
2. When it comes to selecting a specific mutual fund, which of the following information sources would be the most helpful for non-professional investors?
  - (a) A fund's prospectus and annual report.
  - (b) Information from a 401(k) plan-provider.
  - (c) A Morningstar fund report.
  
3. Stock funds always provide higher returns than bond funds.
  - (a) True
  - (b) False
  - (c) True in an up market and false in a down market.
  
4. Asset allocation affects an investment portfolio's:
  - (a) Risk.
  - (b) Return.
  - (c) Both risk and return.

5. Is a material change in a mutual fund's investment objective (style category) a matter of concern to fund investors?
- (a) Not a major concern.
  - (b) Depends on the type of fund.
  - (c) None of the above.
6. The goal of a broad-market based index mutual fund is to:
- (a) Beat the investment return of a specified stock or bond index.
  - (b) Invest in the best-performing sectors of the stock and bond markets.
  - (c) Track the investment return of a specified stock or bond index.
7. Is the market-capitalization of the holdings in a fund useful for fund selection?
- (a) For a value investor – no.
  - (b) For a growth investor – no.
  - (c) For a bond investor – no.
8. Investors can avoid risk by selecting target-date mutual funds:
- (a) Yes.
  - (b) No.
  - (c) Depends on the investor's time horizon.
9. If two mutual funds hold the exact same securities, but one has a higher expense ratio than the other, which of the following statements is true?
- (a) The fund manager with the higher expense ratio will produce a higher return.
  - (b) The fund with the lower expense ratio will have a higher return.
  - (c) No effect – operating expenses are for the account of the fund manager.
10. When selecting a bond index fund, what matters the most?
- (a) Duration, credit quality, and the expense ratio.
  - (b) Total return and manager performance.
  - (c) Manager performance.

11. Which of the following is an attribute of asset allocation?
- (a) Provides a basis for selecting high-return, low-risk mutual funds.
  - (b) Establishes a portfolio's risk-return position.
  - (c) Increases portfolio return by helping to select specific mutual funds.
12. Which type of mutual fund has generally offered the best protection against inflation?
- (a) Stock fund.
  - (b) Money market fund.
  - (c) Hybrid fund (50% stocks and 50% bonds).
13. When considering a fund selection, matching a fund's positive performance record to a current manager's time on the job (tenure) is:
- (a) Important.
  - (b) More important for stock funds.
  - (c) Important only for bond funds.
14. Rebalancing an investment portfolio's asset allocation should be done:
- (a) Every two to three years.
  - (b) As needed.
  - (c) Annually.
15. Does a fund's portfolio turnover rate have fund performance consequences?
- (a) Yes.
  - (b) No for stock funds
  - (c) No for stock funds and balanced funds.