

CHAPTER 2 ACTIVITY

Reading a Prospectus

OBJECTIVE

The purpose of this activity is for students to be able to assess a mutual fund by reading its prospectus.

Teacher Directions

Each of the items listed is important information to look for when selecting a mutual fund. Explain each item by using the handout to show how each word appears on the sample prospectus. Then hand out the student activity sheet and have each student research a mutual fund. There are many websites that can be used (yahoofinance.com, msnmoney.com, morningstar.com, cnnmoney.com) to locate the information.

Answers

1. **Fund Objective:** What type of fund is it? For example, growth, international, etc.
2. **Fund Manager Experience:** How many years of experience has the manager had with the fund? Sometimes this is listed as tenure.
3. **Fund Investment:** What is the fund invested in? Listing of the top companies the fund is invested in.
4. **Historical Performance (Rate of Return):** Look for a minimum five-year return.
5. **Costs of Investing:** What are the fees and expenses?
6. **Turnover Ratio:** A measure of the funds trading activity. This measures the percentage of holdings that have been "turned over," or replaced with other holdings.
7. **Risk Ratio (Return Profile):** Compared to other funds in its category, what is the risk? If it is a Growth fund, it is compared to other growth funds.
8. **Minimum Investment:** How much do you need to open an account?

Sample Mutual Fund

Governance and Management

Stewardship Grade: C

Sometimes, a short description about the Mutual Fund and how it is managed is included on a prospectus. Since this is only a Sample, there isn't much to include here. The following is gibberish: Lorem ipsum dolor sit amet, consectetur adipiscing elit. Nunc metus pede, aliquet nec, gravida in, auctor at, ligula. Vestibulum eu leo. Donec ultrices egestas pede. Quisque tincidunt. Phasellus ut velit ac ante pellentesque venenatis. Vestibulum at eros semper mauris tincidunt malesuada. Duis vitae quam malesuada sem dapibus dapibus. Nunc adipiscing sem eu dui. In tortor magna, accumsan in, dignissim sit amet, fermentum vel, enim. Nam consectetur dui nec augue.

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Performance 06-30-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2004	1.56	0.95	-3.14	12.67	11.89
2005	-1.43	2.92	8.83	1.87	12.48
2006	5.71	-4.12	1.60	4.70	7.82
2007	0.78	8.41	3.25	-3.66	8.68
2008	-9.17	-2.47	—	—	—

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000Gr	%Rank	Growth of \$10,000
3 Mo	-2.47	0.26	-3.72	89	9,753
6 Mo	-11.41	0.50	-2.35	64	8,859
1 Yr	-11.88	1.24	-5.92	84	-8,812
3 Yr Avg	4.80	0.39	-1.11	62	11,510
5 Yr Avg	8.32	0.74	1.00	37	14,912
10 Yr Avg	4.95	2.07	3.99	17	16,212
15 Yr Avg	10.54	1.32	2.58	12	44,956

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	3.63	64	1.12	50
5 Yr (estimated)	7.52	43	0.74	45
10 Yr (estimated)	4.10	17	0.81	45

Potential Capital Gain Exposure: 3% of assets

NOTES

Sometimes, notes about the mutual fund and opinions from financial advisors are included on a prospectus. Since this is only a Sample, there isn't much to include here. The following is gibberish: Lorem ipsum dolor sit amet, consectetur adipiscing elit. Nunc metus pede, aliquet nec, gravida in, auctor at, ligula. Vestibulum eu leo. Donec ultrices egestas pede. Quisque tincidunt. Phasellus ut velit ac ante pellentesque venenatis. Vestibulum at eros semper mauris tincidunt malesuada. Duis vitae Nam risus massa, aliquet et, bibendum eu, ullamcorper et, elit. Donec aliquet felis nec nisi convallis bibendum. Sed sem neque, molestie ut, tristique eu, blandit sed, magna. Cras eu justo. In hac habitasse platea dictumst. In ullamcorper tempus felis. Nullam iaculis pede vel purus. Vivamus fermentum, quam malesuada sem dapibus dapibus. Nunc adipiscing sem eu dui. In tortor magna, accumsan in, dignissim sit amet, fermentum vel, enim. Nam consectetur dui nec augue.

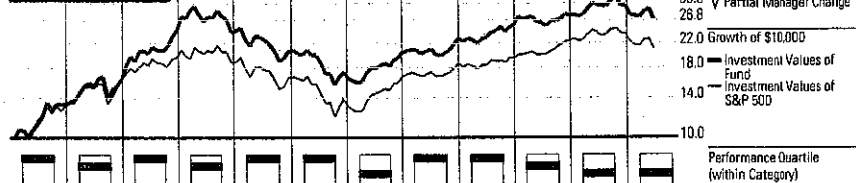
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Ticker: SMPL Load: None NAV: \$32.11 Yield: 3.1% Total Assets: \$5,884 mil Mstar Category: Large Growth

Historical Profile

Return Above Avg
Risk Average
Rating ★★★★★
Above Avg



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	06-08	History
NAV	23.15	29.10	41.94	35.35	29.97	23.34	28.91	32.19	36.01	38.26	36.48	32.11	NAV
Total Return %	34.66	34.87	51.18	-11.41	-14.38	-21.51	24.65	11.89	12.48	7.82	8.69	-11.41	Total Return %
+/-S&P 500	1.30	6.29	30.14	-2.31	-2.47	0.59	-4.03	1.01	7.57	-7.97	3.20	0.50	+/-S&P 500
+/-Russ 1000Gr	4.17	-3.84	18.02	11.01	6.06	6.37	-5.10	5.59	7.22	-1.25	-3.12	-2.35	+/-Russ 1000Gr
Income Return %	0.37	0.34	0.34	0.55	0.85	0.65	0.88	0.52	0.58	1.52	3.36	0.58	Income Return %
Capital Return %	34.29	34.53	50.84	-11.96	-15.21	-22.16	23.97	11.37	11.90	6.30	5.33	-11.99	Capital Return %
Total Rtn % Rank Cat	10	45	19	41	19	12	71	16	13	43	74	64	Total Rtn % Rank Cat
Income \$	0.07	0.08	0.10	0.23	0.30	0.20	0.16	0.15	0.19	0.54	1.27	0.21	Income \$
Capital Gains \$	2.38	2.02	1.84	1.62	0.06	0.00	0.00	0.00	0.00	3.77	0.90	0.90	Capital Gains \$
Expense Ratio %	0.86	0.96	0.90	0.88	0.86	0.88	0.91	0.92	0.87	0.88	0.86	—	Expense Ratio %
Income Ratio %	0.30	0.33	0.37	0.49	0.96	0.73	0.87	0.24	0.68	1.90	1.98	—	Income Ratio %
Turnover Rate %	127	95	43	41	59	—	50	41	38	50	54	—	Turnover Rate %
Net Assets \$mil	2,005	3,504	7,493	8,349	7,148	5,277	5,977	5,616	6,241	6,797	6,401	5,884	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	-11.88			
3 Yr	4.80	Avg	Avg	★★★★
5 Yr	8.32	Avg	Avg	★★★★
10 Yr	4.95	+Avg	-Avg	★★★★
Incept	11.75			

Other Measures	Standard Index S&P 500	Best Fit Index DJ Mod
Alpha	0.6	-3.4
Beta	1.10	1.81
R-Squared	75	91

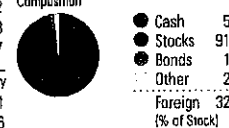
Standard Deviation	Mean	Sherpe Ratio
12.91	4.80	0.11

Portfolio Analysis 03-31-08

Change since 02-08	Total:82 Ratio: 50%	Sector	PE	Tot Ret%	% Assets
Power Corporation	Energy	18.3	25.34	3.92	
General Manufacturing Company	Ind Mtrls	12.4	-26.53	3.89	
EnCana Corporation	Energy	17.9	35.09	3.63	
Express Pharmacy Corporation	Consumer	19.8	-0.14	3.27	
Bank of Lampania Company	Financial	11.3	-27.04	2.77	
Hospital Holding Ltd	Health	—	—	2.50	
Georgetown Company	Goods	17.9	-16.27	2.49	
General Goods Corporation	Goods	—	—	2.23	
International Foods Company	Goods	—	—	2.10	
JCH Corporation	Hardware	19.6	-20.72	2.06	
Lockney Fixtures, Inc.	Hardware	12.9	-3.54	2.02	
NaturalGas Corporation	Energy	11.4	-5.11	1.99	
Green Energy Corporation	Energy	6.4	-40.90	1.87	
SunStar Energy, Inc.	Energy	19.6	7.09	1.76	
International Broadcasting Ltd	Media	—	—	1.74	
Nottingham Electric GDR	Goods	—	—	1.67	
PorteRafti Corporation	Software	21.6	-7.00	1.65	
NDRSE Corporation ADR	Hardware	8.5	-34.44	1.63	
Marse and Sons Stores, Inc.	Consumer	10.7	-16.78	1.62	
Homestead Company	Financial	—	-50.11	1.59	

Value	Blnd Growth	Market Cap %	Sector Weightings	% of Stocks	Rel S&P 500	3 Year High Low
51.5			Info	22.28	1.09	
37.2			Software	5.37	1.34	7 1
10.3			Hardware	13.04	1.28	17 11
1.0			Media	2.25	0.76	7 2
0.0			Telecom	1.62	0.49	2 0
43.341			Service	31.24	0.83	
			Health	9.29	0.78	14 6
			Consumer	11.14	1.60	12 5
			Business	2.25	0.48	4 2
			Financial	8.56	0.51	14 9
			Mfg	46.48	1.11	
			Goods	17.21	1.90	17 9
			Ind Mtrls	12.30	0.97	16 8
			Energy	16.62	1.02	20 15
			Utilities	0.35	0.09	2 0

Value Measures	Rel Category	Profitability	% Rel Category
Price/Earnings	15.11	25.93	1.11
Price/Book	2.79	11.16	1.06
Price/Sales	5.55	14.27	0.99
Price/Cash Flow	10.75		
Dividend Yield %	2.03		
Long-Term Erngs	13.44		
Book Value	10.87		
Sales	10.98		
Cash Flow	11.13		
Historical Erngs	15.03		



Address:	2254 Main Street Lamponia, TN 800-555-0000	Minimum Purchase:	\$2500	Add: \$100	IRA: \$1000
Web Address:	www.ewample.com	Min Auto Inv Plan:	\$500	Add: \$100	
Inception:	05-15-91	Sales Fees:	No-load		
Manager:	John Q. Public	Management Fee:	0.62%		
Tenure:	3.5 Years	Actual Fees:	Mgt:0.62%	Dist: —	
Objective:	Growth and Income	Expense Projections:	3Yr:\$278	5Yr:\$482	10Yr:\$1073
		Income Distrib:	Quarterly		

Individual Fund Tracker Form (Continued)

Stock _____
 Symbol _____
 Price _____
 High _____
 Low _____

Stock _____
 Symbol _____
 Price _____
 High _____
 Low _____

Fund Tracker Overview Form

SYMBOL	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	GAIN LOSS
TOTAL GAIN/LOSS							

1. Which fund had the biggest gain? Which fund had the smallest gain? What was the percentage gained or lost?
2. Which stock had the biggest gain? Which stock had the smallest gain? What was the percentage gained or lost?
3. Figure out your total loss or gain if you had purchased 10 shares of each fund and 10 shares of each stock. Compute this based on the prices from week one.