# What kind of investor should you be: Shareholder or owner?

Individual securities or mutual funds? This question confronts people from the moment that they become investors. Will a portfolio of stocks and bonds or a few well-chosen mutual funds better serve your purposes, means and temperament? The answer, as so often in life: It depends.

**Why funds?**

One of the most commonly cited advantages of mutual funds is *diversification*. Investors may find it difficult to assemble a portfolio of different stocks across a wide range of market sectors. Yet a more limited collection may not be sufficient to cushion the effect when one or two of their holdings perform poorly.

Mutual fund shareholders also benefit by having their assets *managed by professionals*. Few, if any, nonprofessionals have the knowledge and experience that mutual fund managers and their staffs put into analyzing stocks and market conditions.

A third advantage is *liquidity*. Investors can obtain quickly the cash that they need by redeeming fund shares at their then-current net asset value. Of course, an investor can sell individual stocks, too, subject to industry settlement rules. But which stocks should be sold and what will be the effect of the sales on the investor's portfolio? A sale of a portion of a mutual fund investment won't necessarily alter the diversification of the investor's portfolio.

**Why not funds?**

Perhaps the most compelling argument for choosing to own individual investments is the degree of control that you retain. Another: It's relatively simple to keep track of your stock and bond holdings, how much you own and even—if you like to follow your investments closely—how each of the investments is doing on a daily basis.

That's a tall order with mutual funds, which may own shares in a large number of companies. Of course, you can follow how the fund itself is doing. But it's just not feasible to expect that you can keep track of the full collection of securities in a mutual fund.

Taxes are another issue. When a mutual fund sells stocks or bonds at a gain, you pay the capital gains tax. Because mutual funds distribute dividends and capital gains at year-end, purchasing shares late in the year means that you may receive a portion of your investment back fairly quickly—as a taxable distribution.

The benefits of diversification are important. But a mutual fund that owns shares in a highly successful company won't have the impact on your investment return that owning the shares individually will. Performance of a particular stock is diluted by the overall performance of all the shares. Of course, knowing what stock is likely to bring huge rewards is another matter.

The question that will arise often in an investor's mind is: How much stock of a particular company should I own? Generally, it's not a good idea to put more than 10% of one's money into the stock of a single company. Similarly, most professionals do not recommend putting more than 20% into companies in the same industry. If a particular company or a particular industry (think of the "dot.coms" of the 1990s, for example) does poorly, you keep losses to a minimum.

**Investing with confidence**

Whether you are choosing individual securities or mutual funds, the advice of a professional can prove invaluable.

We would be glad to be of assistance. Our clients enjoy a number of advantages when they choose us to help them manage their investments. Chief among them is our ability to help you define your investment goals, develop an investment strategy and choose the specific investments to help you achieve those goals. In sum, we can create a strategy that is custom fitted to meet your needs and circumstances.

And, of course, we are always ready to answer your questions and address your concerns. We will make the necessary modifications to your strategy and investments as changes in your personal circumstances and the economy dictate—as you direct, of course.

To find out more, please give us a call at any time. We look forward to hearing from you.

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