

*Read the first two pages as a review of class #3  
Assignment #3 starts on page 3*



In Class #3, we explored how to research **funds** using **Morningstar**, a popular investment research tool. The goal was to understand what's *inside* a fund by analyzing key metrics.

### Key Questions to Ask When Researching a Fund:

- Is it a **stock fund**, a **bond fund**, or a **combination**?
- What's the **expense ratio** (i.e., the cost of running the fund)?
- What's the **5- or 10-year return** on the fund?

#### For Stock Funds, also ask:

- Are the investments **domestic (US)** or **international**?
- What is the fund's **company size** (capitalization)—Micro, Small, Medium, Large, Mega?
- Are the companies **value-oriented**, **growth-oriented**, or a **blend**?

#### For Bond Funds, check:

- What's the **average maturity** (duration in years)?
- Who issued the bond—the **federal government**, **municipalities** (state, county, city), or **corporations**?
- What is the issuer's credit rating (AAA, AA, A, BBB, etc.)?
- What is the average **coupon** (interest rate)?

### Diversification Matters

To minimize risk, your investments should be **diversified** across different categories. A financial advisor can help by choosing 12–20 funds with the correct **stock/bond ratio** based on your age and goals.

But here's the catch...

### Challenges with Financial Advisors:

- As markets shift, your portfolio can drift **out of balance**. Returning to balance requires **rebalancing**—but many advisors don't actively do this.
- Managing 12–20 funds is overwhelming. Most investors give up and hope their advisor stays on top of things.
- Some brokers may **steer you into high-fee funds** or even "load funds" (which charge a sales commission).
- You might get charged a **fee every time a fund is bought or sold**, discouraging regular rebalancing.

## The Simple Solution: One Fund That Does It All

Instead of juggling 12–20 funds, you can invest in just **one well-diversified fund**.

### Option #1: Fixed Stock/Bond Ratio

If you want your stock/bond allocation to stay **constant** over time, look for a fund with a **set ratio**:

- Fidelity: [Asset Manager Funds](#)
- Schwab: [Asset Allocation Funds](#)
- Vanguard: [LifeStrategy Funds](#)

### Option #2: Gliding Toward Retirement

If you want your fund to GLIDE and become more **conservative over time**, choose a **Target Date Fund**—designed specifically for retirement investing:

- Fidelity: [Freedom Funds](#)
- Schwab: [Target Date Index Funds](#)
- Vanguard: [Target Retirement Funds](#)

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## It Doesn't Get Easier Than That!

...except—you must still choose the right fund for you.

**So, let's turn the page and dive into the homework!**

## ASSIGNMENT #3: Choosing YOUR fund by doing Morningstar research

Objective: Use Morningstar as a research tool to analyze the contents and performance of various mutual funds. Two Excel forms are provided to record Morningstar metrics.

### Forms Overview:

- Form 12.20: A blank form without ticker symbols.
- Form 12.22: Contains four worksheets with ticker symbols provided:
  - 12.22a: Asset Allocation funds from Fidelity, Schwab, and Vanguard.
  - 12.22b: Target Date funds from Fidelity, Schwab, and Vanguard (fund years range from 2020 to 2065).
  - 12.22c: 15 fund categories offered by Fidelity, Schwab, and Vanguard (45 funds total). The 15 funds have different characteristics.
  - 12.22d: 3 fund categories provided by Fidelity, Schwab, and Vanguard (9 funds total). One fund is a US stock fund, one fund is an International stock fund, and one fund is a total US bond fund,

### Instructions:

1. Research at least six Asset Allocation funds
  - Select three funds from one equity % group and three from another.
  - Choose equity % groups that align with the stock/bond ratio you might consider for your life-enhancement savings (not retirement.)
  - Record the Morningstar metrics for these six funds in Form 12.22a.
2. Research six Target Date funds
  - Choose six Target date funds -three from one target year and three from another.
  - Select target years close to your expected retirement year (assuming retirement at 65).
    - Example: If you were born in 1983, you would turn 65 in 2048 — so you might consider Target Date funds for 2045 or 2050. – see chart below

| Born between    |      |  | Two Appropriate Target Date Funds would be: |      |
|-----------------|------|--|---|------|
| 1995            | 2000 |  | 2060  | 2065 |
| 1990            | 1995 |  | 2055  | 2060 |
| 1985            | 1990 |  | 2050  | 2055 |
| 1980            | 1985 |  | 2045  | 2050 |
| 1975            | 1980 |  | 2040  | 2045 |
| 1970            | 1975 |  | 2035  | 2040 |
| 1965            | 1970 |  | 2030  | 2035 |
| 1960            | 1965 |  | 2025  | 2030 |
| 1960 or earlier |      |  | 2020  | 2025 |

- Record the Morningstar metrics for these six funds in Form 12.22b.

Required Metrics include:

| Morningstar TAB |             |  |
|-----------------|-------------|--|
| 1               | Quote       | Expense Ratio  |
| 2               | Quote       | Morningstar Star rating i.e. 3-Star, 4-star, 5 star                              |
| 3               | Performance | Value of \$ 10,000 if invested in the fund for ten years                         |
| 4               | Performance | Value of \$10,000 if invested in the category for ten years                      |
| 5               | Performance | 5 Year avg performance of fund   |
| 6               | Performance | 10-year avg performance of fund  |
| 7               | Performance | 10-year Category performance   |
| 8               | Portfolio   | % Domestic Equities (Stocks)   |
| 9               | Portfolio   | % International Equities (Stocks)  |
| 10              |             | The total of columns 8 & 9 should be entered in 10 – that is, the total equities |
| 11              | Portfolio   | % of Bonds   |
| 12              | Portfolio   | % of other items (such as cash) – column F, G, H, I should add up to 100%        |
| 13              |             | The total of columns 10, 11, 12, should equal 100%                               |
| 14              | Risk        | Risk of Fund vs. Category. Enter low, avg or high                                |
| 15              | Risk        | Return of Fund vs. Category Enter low, avg high                                  |

*HINT – The five and 10-year performance are at the BOTTOM of the performance page – but make sure the slide button on the page is on “Month End” (not “Day End or “Quarter End.”).*

### 3. EXTRA CREDIT - Choose a Fund Family (Fidelity, Schwab, or Vanguard)

- **Pick one** fund family listed (Fidelity, Schwab, or Vanguard).
- **Research the 15 funds** listed on Form 12.22c or the three on Form 12.22d, ALL from the same fund family.
- Enter the relevant **metrics** onto form 12.22c or 12.22d

Watching the performance and volatility of funds from different CATEGORIES illustrates that the CATEGORY is the distinguishing factor – not the fund family.

### 4. 401K or IRA Fund Comparison – if you have either a 401K or an IRA

- Check your latest statement to identify the fund you're invested in
- **Find the ticker symbol** of that fund using online resources (e.g., Google the fund name and look for its ticker symbol).
- Compare this fund's **metrics** with the **Target Date fund year** you would choose for yourself. You can enter this data on **Form 12.22b**.

**YOU ARE NOT DONE YET...**

**5. READ:**

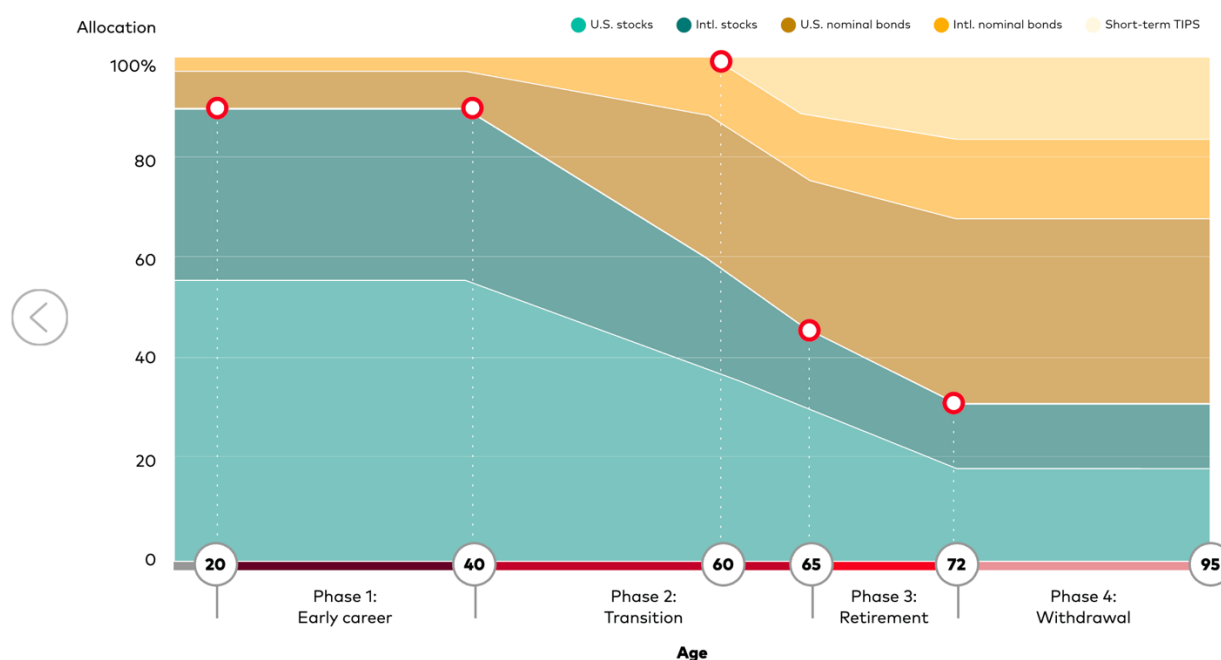
- 12.44 what is a Morningstar category?
- 12.46 ETFs vs Mutual Funds – what is the real difference

**6. WATCH**

<https://www.youtube.com/watch?v=vGcOGYkttl4>

*It is 10 minutes long. There may be a five-second ad before YouTube starts, so ignore the ad. You know better!*

7. **Finally –look at this nifty chart**, which shows how Target Date funds GLIDE over time and how the diversification changes—as it becomes more conservative. BTW – this chart is a very conservative approach:



**What is impressive is that you now understand what is going on.**  
Now that was fun... wasn't it?

**EMAIL your COMPLETED FORM 12.22a and 12.22b to the instructor –**

**And if you do the extra credit, email 12.22c or 12.22d**

**Please get your forms in at least 48 hours before class #4.**

**In your email, let me know which**

- Which fund is best for your retirement?
- What are the criteria you are used to make that decision?

*Pat yourself on the back; you have learned so much AND made an informed choice.*