

Personal Finance, 6e (Madura)
Chapter 17 Investing in Mutual Funds

17.1 Background on Mutual Funds

1) Mutual funds pool money from investors to purchase portfolios of investments.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) The difference between stock mutual funds and bond mutual funds lies in the percentage of stocks and bonds that each fund purchases.

Answer: FALSE

Diff: 2

Question Status: Previous edition

3) A mutual fund is a diversified portfolio of stocks and/or bonds depending on what the manager has purchased.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Two advantages of investing in mutual funds are diversification and professional management.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) An advantage of investing in mutual funds is that they all have the objective of preserving capital.

Answer: FALSE

Diff: 1

Question Status: Previous edition

6) The net asset value (NAV) per share of a mutual fund is determined by the market value of securities owned minus liabilities divided by the number of mutual fund shares outstanding.

Answer: TRUE

Diff: 1

Question Status: Previous edition

7) There is no limit on the number of open-end mutual fund shares that a company can offer.

Answer: TRUE

Diff: 2

Question Status: Previous edition

8) Open-end mutual fund companies sell directly to investors and repurchase shares whenever investors wish to sell them.

Answer: TRUE

Diff: 1

Question Status: Previous edition

9) Closed-end mutual funds have a limited number of shares that are sold when the funds are first created; the shares are then resold over the stock exchanges.

Answer: TRUE

Diff: 2

Question Status: Revised

10) The price per share for a closed-end mutual fund can differ from the fund's NAV per share.

Answer: TRUE

Diff: 2

Question Status: Previous edition

11) No-load mutual funds sell directly to investors and charge a somewhat smaller management fee than load funds.

Answer: FALSE

Diff: 1

Question Status: Previous edition

12) In most cases, the fees charged by load funds go to stockbrokers or other financial advisers who execute transactions for investors.

Answer: TRUE

Diff: 2

Question Status: Revised

13) Studies on mutual funds have found that load funds perform better than no-load funds.

Answer: FALSE

Diff: 1

Question Status: Previous edition

14) Some mutual funds have much higher expenses or expense ratios than others, and this expense can affect your overall returns.

Answer: TRUE

Diff: 1

Question Status: Previous edition

15) On average, mutual funds have an expense ratio of about 3%.

Answer: FALSE

Diff: 2

Question Status: Revised

16) In general, it is prudent to purchase a no-load fund instead of a load fund.

Answer: TRUE

Diff: 1

Question Status: Previous edition

17) In assessing different mutual funds, the returns vary, but the expenses are fixed.

Answer: FALSE

Diff: 1

Question Status: Previous edition

18) While not all mutual funds have loads or commissions, they all have management fees and expenses that are charged to the mutual fund shareholders.

Answer: TRUE

Diff: 1

Question Status: Previous edition

19) Of the management, advertising, and administrative fees charged by mutual funds, normally the management fee is the smallest.

Answer: FALSE

Diff: 1

Question Status: Previous edition

20) Which of the following is **not** a reason for investing in mutual funds?

A) Small amount of funds needed

B) Portfolio manager expertise

C) Specific investment goals

D) Overly diversified

Answer: D

Diff: 1

Question Status: Revised

21) Advantages of investing in mutual funds include all of the following **except**

A) diversification of your investment.

B) professional management.

C) meeting specific investment goals.

D) there is virtually no risk of loss.

Answer: D

Diff: 1

Question Status: Previous edition

22) The _____ is the market value of the securities that a mutual fund has purchased minus any liabilities.

- A) book value
- B) net asset value
- C) gross asset value
- D) net worth value

Answer: B

Diff: 1

Question Status: Previous edition

23) The net asset value (NAV) is reported in financial newspapers and on financial Web sites

- A) for the total fund family.
- B) on a per-share basis.
- C) as a percentage of the fund's price.
- D) on a weekly basis due to the complexity of computation.

Answer: B

Diff: 1

Question Status: Revised

24) In calculating the net asset value (NAV), which of the following is true?

- A) Dividends are subtracted and expenses added
- B) Interest is subtracted and expenses are added
- C) Dividends are added and expenses are subtracted
- D) Interest and other expenses are not included

Answer: C

Diff: 1

Question Status: Previous edition

25) Which of the following is **not** a true statement about mutual funds?

- A) All require a minimum investment.
- B) All have the same investment goals.
- C) The calculation of net asset value is the same.
- D) All have a management expense ratio.

Answer: B

Diff: 2

Question Status: Revised

26) To calculate the NAV, the market value of the portfolio less liabilities is divided by the _____ to arrive at a per-share basis.

- A) original number of shares
- B) shares currently issued by the fund
- C) maximum shares to be issued
- D) average number of shares in comparable funds

Answer: B

Diff: 1

Question Status: Previous edition

27) Mutual funds that sell shares directly to investors and repurchase shares investors want to sell are called _____ funds.

- A) open-market
- B) open-end
- C) closed-end
- D) fair value

Answer: B

Diff: 1

Question Status: Revised

28) An open-end mutual fund may do all of the following **except**

- A) sell shares directly to investors.
- B) charge a fee to buy but not sell shares.
- C) repurchase shares from investors who want to sell their shares.
- D) have its shares traded on the New York Stock Exchange.

Answer: D

Diff: 2

Question Status: Revised

29) A family of mutual funds is

- A) a group of funds all of which have the same objective.
- B) a number of funds with different objectives operated by one investment company.
- C) an arrangement whereby a number of competing investment companies pool their resources.
- D) quite rare in the mutual fund industry.

Answer: B

Diff: 1

Question Status: Revised

30) Existing shares of closed-end mutual fund companies are purchased

- A) from the investment company directly.
- B) from the investment company through a broker.
- C) from other investors in the stock market.
- D) from a bank.

Answer: C

Diff: 2

Question Status: Previous edition

31) Which of the following characteristics is **not** true of closed-end funds?

- A) They can be load or no-load funds.
- B) They do not repurchase shares from investors.
- C) They are bought and sold on stock exchanges.
- D) They may sell above or below NAV.

Answer: A

Diff: 2

Question Status: Revised

- 32) Stock brokers typically do not recommend no-load funds because
- A) the return is lower than on load funds and brokers want to sell only the best funds to their clients.
 - B) federal law prohibits brokers from selling no-load funds.
 - C) no-load funds do not pay a fee to the broker for selling them.
 - D) there is no secondary market for them.

Answer: C

Diff: 1

Question Status: Revised

- 33) Regarding load and no-load mutual funds,
- A) load funds usually outperform no-load funds.
 - B) no-load funds perform at least as well as load funds even when the fees are ignored.
 - C) the two types of funds perform about the same considering the fees.
 - D) load funds may be bought directly, whereas no-load funds must be purchased through a broker.

Answer: B

Diff: 3

Question Status: Revised

- 34) On the average, actively managed mutual funds have an expense ratio of about
- A) 1.5%.
 - B) 2.5%.
 - C) 3%.
 - D) 5%.

Answer: A

Diff: 2

Question Status: Revised

- 35) Which of the following expenses is usually the highest for a mutual fund?
- A) Management fees
 - B) Administrative fees
 - C) 12b-1 fees
 - D) Referral fees

Answer: A

Diff: 1

Question Status: Revised

- 36) The amount by which a closed-end fund's share price in the secondary market is above the fund's NAV is called the
- A) market value.
 - B) premium.
 - C) discount.
 - D) par value.

Answer: B

Diff: 1

Question Status: Revised

37) The amount by which a closed-end fund's share price in the secondary market is below the fund's NAV is called the

- A) market value.
- B) premium.
- C) discount.
- D) par value.

Answer: C

Diff: 1

Question Status: Revised

38) The component of expense ratios that includes a fee charged by some mutual funds to pay brokers is

- A) a management fee.
- B) a 12b-1 fee.
- C) an administrative expense.
- D) a referral fee.

Answer: B

Diff: 1

Question Status: Revised

39) A mutual fund has a beginning balance of \$100 million, earns interest of \$10 million, receives dividends of \$15 million, and has expenses of \$5 million. If 10 million shares are outstanding, what is the NAV?

- A) \$10.50
- B) \$11.00
- C) \$12.00
- D) \$12.50

Answer: C

Explanation: C) $(\$100 \text{ million} + \$10 \text{ million} + \$15 \text{ million} - \$5 \text{ million}) / 10 \text{ million shares} = \12

Diff: 2

Question Status: Previous edition

40) You invested \$1,000 in a mutual fund with a 4% load when the NAV was \$20 per share. If you sell your shares at an NAV of \$24 per share, what is the return on your investment?

- A) 14.8%
- B) 15.2%
- C) 12.5%
- D) 10.8%

Answer: B

Explanation: B)

$$\begin{aligned} (\$1,000 - \$30 \text{ load}) / \$20 &= 48.5 \text{ shares (initial purchase)} \\ \$400 / \$25 &= \underline{16 \text{ shares (reinvested distributions)}} \\ &64.5 \text{ shares} \\ &\times \$24 \\ &\hline &\$15.48 \text{ (proceeds from sale)} \end{aligned}$$

$$\$15.48 - (\$1,000 + \$400) = \$148 / \$1,400 = 10.5 \text{ percent}$$

Diff: 2

Question Status: Revised

41) If a mutual fund's NAV is \$50 and its expense ratio is 2%, what are the total expenses per share?

- A) \$2
- B) \$10
- C) \$1
- D) \$5

Answer: C

Explanation: C) $\$50 \times 0.02 = \1

Diff: 2

Question Status: Revised

42) How much money would you need to purchase 400 shares of a mutual fund with an NAV of \$55 per share and a 3% load?

- A) \$22,000
- B) \$21,450
- C) \$23,200
- D) \$22,660

Answer: D

Explanation: D) $(400 \text{ shares} \times \$55) / 0.97 = \$22,680$ rounded

Diff: 2

Question Status: Revised

43) The price of shares in a mutual fund is referred to as the _____.

Answer: net asset value

Diff: 1

Question Status: Previous edition

44) Mutual funds that are traded on stock exchanges are called _____.

Answer: closed-end funds

Diff: 1

Question Status: Previous edition

45) A mutual fund that does not charge investors a fee and sells direct to investors is a(n) _____ mutual fund.

Answer: no-load

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) funds that sell shares directly to investors and repurchase the shares when investors wish to sell them
- B) annual expenses per share divided by the net asset value of a mutual fund
- C) funds that sell directly to investors and do not charge a fee
- D) amount by which a closed-end fund's share price in the secondary market is above the fund's NAV
- E) market value of the securities that a mutual fund has purchased minus any liabilities owed

46) net asset value

Diff: 1

Question Status: New

47) open-end mutual funds

Diff: 1

Question Status: New

48) expense ratio

Diff: 1

Question Status: New

49) premium

Diff: 1

Question Status: New

50) no-load mutual fund

Diff: 1

Question Status: New

Answers: 46) E 47) A 48) B 49) D 50) C

51) Which of the following is not a characteristic of a closed-end mutual fund?

- A) Once the fund closes the shares of the fund trade on the stock market just like a stock.
- B) The shares may sell above NAV on the secondary market.
- C) Investors can easily sell their share back to the fund on a daily basis at NAV.
- D) The shares may sell below NAV on the secondary market.

Answer: C

Diff: 2

Question Status: New

52) When evaluating mutual funds which are investing in the same types of securities/markets, you should compare

- A) historical performance.
- B) management fees.
- C) 12b-1 expenses.
- D) All of these factors should be considered.

Answer: D

Diff: 2

Question Status: New

53) On January 1, you invest \$10,000 in an open-end mutual fund selling for \$25 per share that has a 2% load, 1.5% management fee and 1% 12b-1 expense s. If the fund NAV appreciates to \$28 by the time you sell it on December 31, what was your return on investment?

- A) 9.76%
- B) 11.2%
- C) 8.7%
- D) 14%

Answer: A

Diff: 3

Question Status: New

17.2 Types of Mutual Funds

1) A stock mutual fund that pays higher than normal dividends is called a growth fund.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) Capital appreciation funds are mutual funds that focus on stocks that are expected to grow at a very high rate.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) Capital appreciation funds tend to invest in stocks that distribute little or no dividends so that earnings can be reinvested for expansion.

Answer: TRUE

Diff: 2

Question Status: Previous edition

4) Balanced growth and income funds contain both growth stocks and stocks that pay high dividends.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) A mutual fund that buys only the stocks of gold mining companies is a good example of a sector fund.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) Index stock funds always contain the stock of every company in a particular index.

Answer: FALSE

Diff: 2

Question Status: Revised

7) Index mutual funds tend to have lower expenses than other types of mutual funds.

Answer: TRUE

Diff: 2

Question Status: Previous edition

8) Index funds usually have lower capital gains on their investments and are, therefore, advantageous to investors in higher income tax brackets.

Answer: TRUE

Diff: 2

Question Status: Previous edition

9) An international stock mutual fund is one that owns shares in companies from the United States and other countries.

Answer: FALSE

Diff: 3

Question Status: Previous edition

10) Socially responsible mutual funds are those whose managers have taken and passed a strict financial ethics test.

Answer: FALSE

Diff: 1

Question Status: Previous edition

11) Corporate bond funds focus on bonds issued by high-quality firms and, therefore, tend to have a low degree of default risk.

Answer: TRUE

Diff: 2

Question Status: Previous edition

12) Municipal bond funds have tax advantages over other kinds of mutual funds.

Answer: TRUE

Diff: 1

Question Status: Previous edition

13) A small-cap fund focuses on firms that are relatively small and its investment objectives somewhat overlap capital appreciation funds.

Answer: TRUE

Diff: 1

Question Status: Revised

14) You are considering investing in a no-load mutual fund that focuses on growth stocks or in an index fund. The growth stock fund had an annual return of 15% and expenses of 2%. The index fund had an annual return of 12% and expenses of 1%. Assuming equal risk, you should buy

A) the index fund.

B) the growth fund.

C) some of both.

D) neither; the expenses are too high.

Answer: B

Diff: 1

Question Status: Revised

15) You are investing for your retirement 20 years hence. You would be most interested in a fund whose investment objective is focused on

A) long-term growth.

B) capital conservation.

C) income generation.

D) a balance of some growth but mostly high dividends.

Answer: A

Diff: 1

Question Status: Previous edition

16) Which of the following is a stock mutual fund?

A) Ginnie Mae fund

B) Growth fund

C) Municipal securities fund

D) Treasury securities fund

Answer: B

Diff: 1

Question Status: Revised

17) Which of the following stock mutual funds focus on medium size companies that are more established than small-cap firms, but may have less growth potential?

A) Equity income funds

B) Sector funds

C) Mid-size capitalization funds

D) Balanced growth and income funds

Answer: C

Diff: 2

Question Status: Revised

18) Which of the following stock funds would probably have the lowest risk and return?

- A) International funds
- B) Capital appreciation funds
- C) Equity income funds
- D) Sector funds

Answer: C

Diff: 2

Question Status: Revised

19) Which of the following funds would probably have the highest potential risk and return?

- A) Index funds representing the entire stock market
- B) Capital appreciation funds
- C) Equity income funds
- D) Balanced growth and income funds

Answer: B

Diff: 2

Question Status: Revised

20) Investing in one of which of the following funds will typically give you the least diversification?

- A) Growth funds
- B) Capital appreciation funds
- C) Equity income funds
- D) Sector funds

Answer: D

Diff: 1

Question Status: Revised

21) Which of the following is not a reason why index funds typically incur lower expenses than other mutual funds?

- A) Index funds are not actively managed.
- B) There are no expenses for research.
- C) The portfolio is revised infrequently, so transaction costs are low.
- D) The Securities and Exchange Commission sets a limit on index fund expenses.

Answer: D

Diff: 1

Question Status: New

22) _____ funds are mutual funds that attempt to mirror the movements of existing broad market indicators.

- A) Internet
- B) Stock
- C) Index
- D) International

Answer: C

Diff: 1

Question Status: Previous edition

23) Index funds incur _____ expenses and are _____ managed compared to other funds.

- A) fewer; not actively
- B) fewer; actively
- C) more; not actively
- D) more; actively

Answer: A

Diff: 2

Question Status: Previous edition

24) Index funds offer tax advantages because they _____ in much trading and, therefore, _____ capital gains.

- A) engage; generate
- B) do not engage; generate
- C) engage; do not generate
- D) do not engage; do not generate

Answer: D

Diff: 2

Question Status: Revised

25) The difference between an international and a global fund is

- A) global funds invest in both U.S. firms and those of other countries whereas international funds focus on firms outside the United States.
- B) international funds invest in U.S. firms and those of other countries while global funds invest only in foreign firms.
- C) international funds invest in Treasury securities but no U.S. firms while global funds invest in both.
- D) there is no difference except in name.

Answer: A

Diff: 2

Question Status: Revised

26) Which of the following is **not** true of global and international bond funds?

- A) They may be subject to interest rate risk.
- B) They may be subject to exchange rate risk.
- C) Their expenses may be higher than those of domestic bond funds.
- D) They are especially attractive to investors in high tax bracket.

Answer: D

Diff: 2

Question Status: New

27) High yield (junk) bond funds focus on relatively risky bonds issued by firms that are subject to

- A) default risk.
- B) interest rate risk.
- C) exchange risk.
- D) management risk.

Answer: A

Diff: 1

Question Status: Previous edition

28) International bond funds

- A) focus on bonds issued by non-U.S. firms or governments.
- B) may hold bonds that offer a higher yield than U.S. bonds.
- C) are subject to exchange rate risk.
- D) All of the above are correct.

Answer: D

Diff: 2

Question Status: Revised

29) _____ mutual funds invest in both foreign bonds and U.S. bonds.

- A) International bond
- B) Index
- C) Treasury bond
- D) Global bond

Answer: D

Diff: 2

Question Status: Revised

30) Index funds are popular for all of the following reasons **except**

- A) their performance relative to other mutual funds.
- B) they incur low expenses.
- C) they are not actively managed.
- D) performance is frequently lower than that of actively managed portfolios.

Answer: D

Diff: 2

Question Status: Revised

31) Technology funds focus on technology based firms. Which of the following statements regarding these firms is **not** true?

- A) Many of these firms are relatively young.
- B) They have a low degree of risk.
- C) They have potential for high returns.
- D) They do not have a consistent record of strong performance.

Answer: B

Diff: 2

Question Status: Revised

32) An investor who wants to invest in a particular sector but does not have strong opinions about which stocks to purchase within that sector would be likely to choose a(n)

- A) balanced growth and income fund.
- B) mid-cap fund.
- C) exchange-traded fund that represents that particular sector.
- D) growth fund.

Answer: C

Diff: 2

Question Status: Revised

33) A mutual fund that invests only in healthcare-related companies is an example of a(n) _____ fund.

Answer: sector

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) mutual funds that focus on a specific industry
- B) funds that sell shares to individuals and invest the proceeds in bonds
- C) mutual funds that contain both growth stocks and stocks that pay dividends
- D) mutual funds that focus on stocks that are expected to grow at a very high rate
- E) mutual funds that focus on firms that pay a high level of dividends

34) bond mutual funds
Diff: 1
Question Status: New

35) sector funds
Diff: 1
Question Status: New

36) capital appreciation funds
Diff: 1
Question Status: New

37) equity income funds
Diff: 1
Question Status: New

38) balanced growth and income funds
Diff: 1
Question Status: New

Answers: 34) B 35) A 36) D 37) E 38) C

39) When the global financial forecast calls for recession in China and Europe, you should consider investing in

- A) a global fund.
- B) an international fund.
- C) a domestic large cap fund.
- D) a global bond fund.

Answer: C
Diff: 1
Question Status: New

40) If you are investing for the "long-term" and are interested in capital appreciation and comfortable with increased risk levels, you should consider a(n) _____ or a(n) _____.

- A) global bond fund; international bond fund
- B) growth fund; small cap fund
- C) international index fund; global index fund
- D) junk bond fund; domestic equity income fund

Answer: B

Diff: 2

Question Status: New

17.3 Return and Risk of a Mutual Fund

1) Mutual funds that receive dividends and capital gains must distribute these to investors in the same year.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Hedge funds, which are not regulated by the Securities and Exchange Commission, are only available to wealthy investors and are less risky than ordinary mutual funds.

Answer: FALSE

Diff: 1

Question Status: Previous edition

3) Capital gains from mutual funds can be received if the mutual fund makes a profit on the shares it sells or if an individual investor realizes a gain on the sale of mutual fund shares.

Answer: TRUE

Diff: 2

Question Status: Previous edition

4) Even bond mutual funds with little or no default risk have interest rate risk.

Answer: TRUE

Diff: 1

Question Status: Revised

5) Investors in high tax brackets will normally achieve higher performance by selecting mutual funds that generate

- A) long-term dividends.
- B) long-term capital gains.
- C) long-term stock dividends.
- D) short-term capital gains.

Answer: B

Diff: 1

Question Status: Previous edition

6) A mutual fund must distribute _____ to investors in the same year as earned.

- A) dividends
- B) profits
- C) capital gains
- D) Both A and C are correct.

Answer: D

Diff: 1

Question Status: Previous edition

7) Which of the following is **not** a source of profits for owners of a stock mutual fund?

- A) Dividends distributed by the mutual fund
- B) Interest distributed by the mutual fund
- C) Capital gains distributed by the mutual fund
- D) Capital gains from the sale of their shares in the mutual fund

Answer: B

Diff: 1

Question Status: Revised

8) The possibility that interest rates may rise is an example of

- A) political risk.
- B) exchange rate risk.
- C) interest rate risk.
- D) liquidity risk.

Answer: C

Diff: 1

Question Status: Revised

9) Treasury bond funds with short maturities have _____ default risk and _____ interest rate risk.

- A) high; low
- B) high; high
- C) limited; high
- D) low; limited

Answer: D

Diff: 2

Question Status: Previous edition

10) High yield bond funds have a _____ potential return and _____ risk.

- A) high; low
- B) high; high
- C) low; high
- D) low; low

Answer: B

Diff: 2

Question Status: Previous edition

11) Which of the following bond mutual funds has both the highest default risk and the highest interest rate risk?

- A) Long-term Treasury
- B) Short-term Ginnie Mae
- C) Short-term corporate
- D) Long-term high-yield

Answer: D

Diff: 2

Question Status: Revised

12) Which of the following bond mutual funds has both the lowest default risk and the lowest interest rate risk?

- A) Short-term Treasury
- B) Long-term Ginnie Mae
- C) Long-term corporate
- D) Short-term high yield

Answer: A

Diff: 2

Question Status: Revised

13) Investors can earn a return on an investment in a stock mutual fund in all of the following ways **except**

- A) interest distributions.
- B) dividend distributions.
- C) capital gains distributions.
- D) redeeming shares.

Answer: A

Diff: 2

Question Status: Revised

14) The susceptibility of a mutual fund's performance to general stock market conditions is known as

- A) interest rate risk.
- B) market risk.
- C) exchange risk.
- D) corporate risk.

Answer: B

Diff: 2

Question Status: Previous edition

15) What would be the tax consequence of owning a mutual fund that made distributions of \$600 resulting from short-term capital gains and \$800 resulting from long-term capital gains assuming a 30% tax bracket and a 10% capital gains rate?

- A) \$420
- B) \$140
- C) \$300
- D) \$260

Answer: D

Explanation: D)

Short-term gains $\$600 \times 0.30 = \180

Long-term gains $\$800 \times 0.10 = \underline{\$80}$

Total tax consequence $\$260$

Diff: 2

Question Status: Revised

16) If a mutual fund's performance is the result of conditions in the general stock market, the fund is being affected by the _____ risk.

Answer: market

Diff: 1

Question Status: Revised

17) List the following four types of medium-term bond mutual funds in order from the lowest default risk to the highest: Ginnie Mae, corporate, high-yield, Treasury.

Answer: Treasury, Ginnie Mae, corporate, high-yield.

Diff: 2

Question Status: Revised

18) Arrange the following five bond funds in order from the lowest return and risk to the highest: long-term global, short-term Treasury, intermediate-term corporate, long-term high-yield, long-term Ginnie Mae.

Answer: short-term Treasury, intermediate-term corporate, long-term Ginnie Mae, long-term high-yield, long-term global.

Diff: 2

Question Status: Revised

19) Arrange the following five stock funds in order from the highest risk to the lowest: index fund, capital appreciation fund, technology sector fund, income fund, growth stock fund.

Answer: technology sector fund, capital appreciation fund, growth stock fund, income fund, index fund.

Diff: 2

Question Status: Revised

20) Long term Treasury bonds are considered to be the "risk free" asset in the global financial markets. However, long term Treasury bond funds still bear significant _____ risk.

- A) global comparative
- B) financial
- C) interest rate
- D) deflation

Answer: C

Diff: 2

Question Status: New

21) Municipal bond mutual funds are primarily for investors seeking

- A) ongoing interest income cash flow.
- B) income free of federal taxes.
- C) income free of state taxes.
- D) Both A and B are correct.

Answer: D

Diff: 2

Question Status: New

17.4 Selecting Mutual Funds

1) Choosing a mutual fund or an investment company involves reviewing past performance and also comparing fees and expenses charged.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Before investing in a mutual fund, you should request and evaluate the fund's prospectus, which is available for a small charge.

Answer: FALSE

Diff: 2

Question Status: Previous edition

3) A breakdown of the fees and expenses of a mutual fund is not one of the items addressed in a prospectus.

Answer: FALSE

Diff: 1

Question Status: Previous edition

4) A(n) _____ is a document that provides financial information about a mutual fund, including expenses and past performance.

- A) annual report
- B) prospectus
- C) financial statement
- D) balance sheet

Answer: B

Diff: 1

Question Status: Previous edition

5) Before investing in a mutual fund the very **least** you should do is

- A) read the prospectus.
- B) consult an attorney.
- C) open an account with a broker.
- D) consult a certified financial planner.

Answer: A

Diff: 1

Question Status: Previous edition

6) Which of the following is **not** included in the prospectus?

- A) Redemption fee
- B) Expenses including management fees
- C) Expenses including advertising and marketing fees
- D) Advice on when to buy and sell

Answer: D

Diff: 1

Question Status: Revised

7) In considering various fund characteristics, which of the following should you **not** consider?

- A) Minimum investment
- B) Investment objective
- C) Investment company
- D) S & P ratings

Answer: D

Diff: 1

Question Status: Previous edition

8) In deciding if a no-load mutual fund is a good investment for you, you should carefully consider all of the following **except**

- A) the fund's investment objective.
- B) the fund's previous managers.
- C) the fund's investment strategy.
- D) your risk tolerance level.

Answer: B

Diff: 2

Question Status: Previous edition

9) From the perspective of investors, the most important expense statistic mentioned in the prospectus of a mutual fund is the

- A) gross profit margin ratio.
- B) expense ratio.
- C) times interest earned ratio.
- D) growth rate.

Answer: B

Diff: 2

Question Status: Revised

10) You may purchase an open-end no-load mutual fund in all of the following ways **except**

- A) over the phone.
- B) by U.S. mail.
- C) over the Internet.
- D) from a broker.

Answer: D

Diff: 1

Question Status: Previous edition

11) The best way to predict a mutual fund's performance is to

- A) ask your stockbroker.
- B) look it up on the Internet.
- C) look at past performance.
- D) study the investment strategy as it relates to the current economic conditions.

Answer: D

Diff: 2

Question Status: Revised

12) A stock mutual fund's prospectus typically states that the fund is subject to all of the following risks **except**

- A) market risk.
- B) general decline in the stock market.
- C) substantial declines in individual stocks.
- D) default risk.

Answer: D

Diff: 2

Question Status: Previous edition

13) List five considerations or characteristics when purchasing a mutual fund.

Answer: Investment objective, return, expense ratio, load or no-load, minimum investment amount, risk, types of stocks or bonds in the portfolio, prior history and financial condition of the fund, investment company.

Diff: 2

Question Status: Previous edition

14) When evaluating a mutual fund prior to deciding to invest, you should consider

- A) the breadth of the stocks in which the fund is investing.
- B) the industry or industries in which the fund is investing.
- C) performance through the financial crisis in 2008-2010.
- D) both factors in both A and B, above.

Answer: D

Diff: 2

Question Status: New

15) A _____ mutual fund is a good investment for "rainy day" funds, while a _____ mutual fund is a good type of investment for funds earmarked for retirement in 25 years.

- A) municipal bond; corporate income
- B) money market; global growth
- C) diverse equity; money market
- D) short term junk bond; long term junk bond

Answer: B

Diff: 2

Question Status: New

17.5 Quotations of Mutual Funds

1) When an investment company offers several different mutual funds, its name is printed in bold in the listings in financial newspapers, but individual funds are not listed.

Answer: FALSE

Diff: 1

Question Status: Revised

2) Stocks that performed well in one quarter will not necessarily perform well in another quarter.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) Lipper indexes indicate the mean return for various types of mutual funds.

Answer: TRUE

Diff: 1

Question Status: Previous edition

17.6 Diversification among Mutual Funds

1) Because a mutual fund is already diversified with perhaps 100 or more different investments, further diversification is not recommended or necessary.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) The best investment strategy is to

A) diversify across stock and bond mutual funds with different objectives.

B) hold only bond mutual funds with bonds from U.S. corporations.

C) buy only one or two stock mutual funds.

D) buy individual stocks in one sector and bonds of companies in a different sector.

Answer: A

Diff: 1

Question Status: Revised

3) An arrangement offered by some brokerage firms that enables investors to diversify among various mutual funds and receive summary statement information is called a

A) mutual fund firm.

B) mutual fund security.

C) mutual fund supermarket.

D) mutual fund family.

Answer: C

Diff: 1

Question Status: Previous edition

4) Which of the following statements about hedge funds is **not** true?

A) They sell shares to wealthy individuals and financial institutions.

B) They charge high management fees.

C) They require a large initial investment.

D) They are exposed to very little risk.

Answer: D

Diff: 1

Question Status: Revised

5) In order to maximize diversification it is a good idea to

A) invest in large, mid and small cap domestic mutual funds.

B) invest in high quality global bond mutual funds.

C) invest in international equity mutual funds.

D) invest in all funds mentioned in A, B and C.

Answer: D

Diff: 2

Question Status: New

17.7 How Mutual Funds Fit Within Your Financial Plan

1) Before investing in mutual funds, discuss other issues that you would wish to address in your overall financial plan.

Answer: You would wish to maintain adequate liquidity, be able to make all existing loan payments, and accumulate sufficient money to begin investing in mutual funds.

Diff: 2

Question Status: Revised

2) When you begin to save for retirement and general wealth building, it is wise to invest in mutual funds because

- A) they provide instant diversification.
- B) they are less expensive than brokers.
- C) they generally do not decrease in value.
- D) All of the above are correct.

Answer: A

Diff: 2

Question Status: New