Investing

Evaluating investment strategies

Sometimes, trying to select a grocery product from the many offerings at the store can seem bewildering. But you can focus your decision-making and make an informed choice by weighing the advantages and disadvantages of your options. Investment strategies can be offered in retirement plans through various vehicles, with mutual funds being the most common. Other vehicles, such as collective investment trusts (CITs) or separately managed accounts (SMAs) can also offer unique benefits to investors depending on their goals and preference. For the purposes of this paper, we will focus on the predominant vehicle – mutual funds.

Finding a good fit

The investments you choose for your portfolio should be well matched with your investing goals, risk tolerance, and investment time frame. If you have short-term goals or a low risk tolerance you may want to consider a fund with a conservative investment strategy. Funds with a more aggressive focus and the potential for long-term growth may be a better fit for those investing for the long term and with a higher risk tolerance.

Active or passive

Whether a fund is actively or passively managed is another factor to consider. Actively managed funds attempt to outperform the market by relying on the fund manager's skill in buying and selling securities at favorable prices. An active fund manager's expertise, experience and past performance should be taken into account when evaluating these funds.

Index (or passively managed) funds invest primarily in all or most of the securities that make up a particular market index, with the goal of imitating the index's return. Index funds generally have lower costs than actively managed funds as a result of less frequent trading.

It's all relative

When selecting a fund, you'll want to know how well it's performing. Although past performance does not guarantee future results, it's helpful to compare a fund's returns with an appropriate benchmark index. And once it's part of your portfolio, knowing how your fund is doing compared to similar funds can help you determine if changes may be necessary to reach your goals. It's not unusual for performance to vary over time, but you might want to reconsider a fund that consistently performs below its benchmark.

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Keep track of changes

A fund's strategy may change when a new manager is appointed. As a result, the fund may no longer be aligned with your original reasons for purchasing it. It's also possible your own goals, risk tolerance, and time frame have changed. Detailing the reasons why you've purchased a fund may help your decision-making when you're evaluating performance. You may want to occasionally check with your financial professional to confirm that your fund's objectives fit your portfolio as you intended.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

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