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Winning Mutual Fund Investing Strategies

Dan Eggertsen: Hi everyone. I'd like to welcome everyone to the call tonight. This is Dan Eggertsen. I'm here with my father, Karl Eggertsen. Hey Dad, how you doing tonight?

Karl Eggertsen: Doing real good Dan.

Dan Eggertsen: Hey good Dad. What I've done is - we've been getting a ton of questions about mutual fund investing. There're a lot of questions about this specific topic. I've gone through all the questions that we've been getting over the last few weeks and I've summarized them into the top three that we keep seeing over and over again. So what I want to do is I want to hit those right now with you, Dad and maybe you can give these people some good answers

Karl Eggertsen: Okay.

Dan Eggertsen: The first one Dad is, "How do I figure out what mutual funds I should put my money into for the highest return?"

Karl Eggertsen: Okay I'll start off with the selection of one of several well-known, very highly regarded mutual fund companies that over many years have provided extremely good service and outstanding mutual funds. These three companies are The Fidelity Investment Company, The Vanguard Group, and Charles Schwab. They all provide low cost, no load – which is no sales charge up front, and low management fees mutual funds that you can establish in an account with any one of these companies.

I think it's best to buy all of your funds through just one of these companies and the reason for that is because you will get much lower cost. In other words, once you invest in mutual funds with any one of these three companies, you can contribute without any cost whatsoever, additional amounts on a regular basis to these mutual funds that are sponsored by these three companies.

So again, it's important to buy for example, all Vanguard funds if you go with the Vanguard Group because you will have that advantage. You will have absolutely no cost at all. All of the dollars that you put in on a regular basis, investing for the future go in without any fees whatsoever. Whereas if you buy Vanguard funds through Charles Schwab, you're going to be

paying a fee every time you contribute to Vanguard if they're held in Charles Schwab. The point is that all three of these companies have top notch funds that can be used with them.

Dan Eggertsen: I hope everyone realizes on the call what a huge tip that is because a lot of investors, if their funds are edging up and they're showing some gains, some increase in value, the reality is, is that you can have the value of your fund moving up but if you're paying, if you're doing a dollar cost averaging thing and you're putting in additional money every month, you're getting dinged with a commission charge if you're say, with Charles Schwab investing in Vanguard mutual funds and that can offset any gains that you have.

Karl Eggertsen: It can certainly take away a part of your gains and over long periods of time, the compounding is reduced to a sizeable extent.

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Dan Eggertsen: Right.

Karl Eggertsen: The loss of compounding of your dollars as they grow in value. If you have fewer dollars being put to use because a lot of them have been going to commissions every time you invest some money into your fund; it's something that you can totally avoid. There's a lot of little tips as Dan pointed out here; is going with the same company, keeping costs very low, and investing cost free every time you contribute more to the funds if you stick with the one company and their specific mutual funds. Now the type of mutual fund to buy – and this is extremely important – are index mutual funds. Index funds have outperformed all but a tiny handful of the thousands of mutual funds sold to the public.

Dan Eggertsen: Really?

Karl Eggertsen: Research studies over many decades – 50, 60 years, it goes back many decades – many independent studies have come up with the same conclusion that investing in index mutual funds on a regular basis, you will beat 95% of the other mutual funds out there.

Dan Eggertsen: 95%?

Karl Eggertsen: 95% of all the other mutual funds out there. Over long periods of time, the low cost, the much reduced tax ramifications because of the way index funds work. Index funds are really invested in total markets. For example, the US Stock Market, the total International Stock Market, the total US Bond Market. Those broad index funds, there's very minimal trading that goes on so there's no tax.

Very little selling going on, very little trading going on because they're invested very broadly and they buy and hold and you're invested very broadly and you're not making bets on what's going to happen with the economy, what stocks are going to do the best. You're investing in a way at such low cost that the other types of funds out there that are managed by professionals trying to beat the market all the time, they're accruing costs and they just can't keep up and over the long term, the index funds just pull ahead.

Dan Eggertsen: Excellent.

Karl Eggertsen: They're much more stable, they're much more predictable. So I highly recommend those, they're very simple, they're very predictable. Index mutual funds with any one of these three companies; Fidelity Investments, The Vanguard Group, or Charles Schwab, they all have very low cost index funds covering the markets that I mentioned; The total US Stock Market, the total International Stock Market, and the total Bond Market.

Dan Eggertsen: This just illustrates and drives home a point that you've been making to me and I've been making to other people for a long time and that's, this stuff doesn't have to be complicated. Yes, there's a lot of new investment vehicles out there every month, every year and some of them are complicated, some of them not so complicated.

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But in the end, for the investor that just wants a place to put their money and they can sleep soundly at night knowing that their money is growing faster than 95% of the other investors out there that are investing in other mutual funds. Index funds are for you and you can easily set up a diversified plan just using index funds and then automatic contributions to them on a monthly basis and you can beat most people out there. So thank you for that Dad.

Karl Eggertsen: Okay Dan.

Dan Eggertsen: Is there anything else you wanted to add on that?

Karl Eggertsen: Well let's see...

Dan Eggertsen: Well let's just go onto question number two then.

Karl Eggertsen: Yeah. There's just one additional thing I wanted to point out. There's another type of index fund that's out there that's just grown like crazy.

Dan Eggertsen: Oh.

Karl Eggertsen: And they're excellent. They are index funds but they're a specific type of mutual index fund and they're called exchange traded funds. The acronym is ETF. Many people listening to this will have heard of ETFs and might be quite familiar with them. They are excellent. They're very low cost. You can trade them like a stock which that's not the main advantage or a good recommended thing to do, is to be trying to time the market and trading all the time.

They're best for a buy and hold. If somebody's has a chunk of money and they want to invest it for a long period of time. There's no better vehicle than an exchange traded fund to do that. If you want to get into contributing on a regular basis, more money, like every month from your salary into ETFs, again you're going to be dealing with commissions because they're like stocks.

You have to do it through a broker and you accrue some commissions. So if somebody has ETFs and they're adding to their ETFs, they want to do it with a very, very low cost discount broker to keep the cost down. That's the disadvantage; they're not really designed, optimally for regular contributions. They're best for holding a chunk of cash for long periods of time.

Dan Eggertsen: I see. Makes a lot of sense.

Karl Eggertsen: Okay?

Dan Eggertsen: Okay, Dad. Let's move on to question number two then. "What mutual funds do you personally use and why?"

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Karl Eggertsen: I use the Vanguard Group specifically for most of my investing in these three broad markets; again, the US Stock Market, the International Stock Market, and the total Bond Market. I also have some ETFs because I am retired and I have some chunks of money that I just leave there that I have in my portfolio. So I have those also. Again, they're very low cost. Some of them are even lower cost than the mutual funds at Vanguard and Fidelity and Charles Schwab. But the point is, they are best for just holding chunks of money and I do have a few of those.

Dan Eggertsen: Okay. Okay. Great Dad. Thanks. Okay let's hit the last question here. We've got about five minutes left. "Why are some mutual funds better than others? What do you look at specifically that separates them?"

Karl Eggertsen: Okay. This will be kind of a summary of some of the things that we've talked about.

Dan Eggertsen: That's fine.

Karl Eggertsen: Okay, we'll just reiterate. The best mutual funds out there for the vast majority of investors and Warren Buffett has also said the same thing, is that index funds for the vast majority of investors out there is the best way to go. For the reasons of low cost, their predictability, their top performance over the long-term as compared to other types of mutual funds. They're very simple and easy to use and very tax efficient.

In other words, the average person who wants to invest for the future also wants to have a life and not worry every day about trading stocks and what company's doing good and what's not. Or what mutual fund that's being very actively managed by some aggressive manager that's trying to beat the markets all the time. The cost can really add up and you would end up doing a lot worse.

They're very tax efficient, they're very low cost; the whole works. What I look for in any mutual fund before investing is I look for no load, no sales charge up front - and I'm just saying

this in a general sense - no sales charge up front, they go by the term no load, no fees to add more dollars when you contribute additional dollars on a regular basis, low management fees – these are ongoing percent of the total amount of money that you have invested.

The fees should be among lowest in the industry which is index funds. They're down in the order of 0.1% whereas the actively managed mutual funds run actively by managers trying to beat the market, they can be 1% to 2% of your total amount. I look for very diversified mutual funds which basically you get back to the index fund. They're very diversified and consistent in their strategies and performance.

Very low turnover which means there's minimal to no trading going on within the fund so they're very tax efficient. I like very tax efficient and low turnover funds. That they're provided by very highly regarded, highly rated companies like Vanguard, Fidelity, and Charles Schwab. [13:28.9]

So those are the things that I look for and they all, if you think about all of them, they all really point to an index fund. So those are the things that I look for and those are the winning points that you have mutual funds. If you have all of those, you're doing the best that you can do and you're beating 95% of the other mutual funds out there.

Dan Eggertsen: Fantastic. Now we've got a little over a minute left and I just wanted to talk really quickly about Warren Buffett. I've read portions of some of his books and you just mentioned that he talks about that, for most investors sticking to those index funds is key and that's what he recommends for most investors. I've heard that many times from him. But then there's the other side of the coin.

A good friend of mine, Jimmy emailed me today. He's talking about Warren Buffett and he says, "You know Dan, Warren Buffett talks about in many of his books that if you want to be an expert like him and you want to get as wealthy, you want to have growth like he has in his portfolio, you should pick no more than about 20 single stocks in your lifetime and you're going to pick very simple companies that are valued lower than they're actually worth and you want to buy them and hold them for the rest of your life." Is that true? What's your take on Warren Buffett?

Karl Eggertsen: Okay Warren Buffett. Warren Buffett is one of thousands of brilliant investors; many thousands of brilliant investors. He himself has said, "There're a lot of guys out there that are smarter than I am." He says he's simple, he invests simply, he doesn't understand the complexities of a lot of companies so he won't even look at them. Like technology companies, he's typically stayed away from them.

He invests in companies that he can understand very easily, they have a very simple strategy and very easy to understand. Warren Buffett's approach has been, like Jimmy was indicating, is he's researched very carefully over long periods of time and had great patience in trying to invest in the right company at the right time and then Warren Buffett's lived a long time. He started when he was a young guy.

He bought Coke and Gillette, some of the stalwarts, blue chip companies that are still around today that have done, over long periods of time they've just done tremendously. Warren Buffett is a buy and holder - not that he won't trade if things go bad but he does such a good job and has so much patience. He's got a temperament that few investors have. That's one thing that gives him an advantage. He has tremendous patience. He can wait for years. He can hold cash for years before he finds a company that he thinks is worth investing in.

But Warren Buffett is a buy and holder and that's what index funds are all about and that's why he likes index funds is there's a buy and hold. They didn't have index funds when he was a young man. He says that he pointed out that index funds have come around in the last 10, 15 years and become more and more prominent in the investing community. He pointed out a number of times and I have quotes from him saying that index funds for most investors are really the way to go. It's very hard to pick stocks. He admits that he's had some luck.

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He's lived a long time. He's also not just a pure investor. He's also a businessman that can identify companies that are in trouble and figure out ways that if he thinks he can turn them around and sees the problem, he'll buy them. Brookshire Hathaway will buy run down companies that are mismanaged and they'll manage them back to health and sell them and/or hold onto them and grow with that.

So he's not just a pure investor, he's also a businessman that knows how to manage companies back to health but he's very good at selecting and has a great patience and a great temperament for investing. So he's an unusual guy. It's just like any statistical probability, on the bell curve of probabilities Warren Buffett is going to be on the leading edge way out where just very few investors have been fortuitous enough to have everything go well for them.

Whereas there have been many other investors that had just as many of the similar talents as Buffett, but things just didn't work out for them as well. So there's a little bit of timing and luck that goes into...

Dan Eggertsen: Into that.

Karl Eggertsen: ... into our lives for all of it.

Dan Eggertsen: And a whole lot of patience and a whole lot of research that many people don't have time for.

Karl Eggertsen: Right. They don't have time for it, they don't have the interest, they don't have the patience. Again, his temperament has been critical.

Dan Eggertsen: Yeah. Well thanks so much for your time and thanks for answering that extra question. I think everyone enjoyed that and I thank everyone for being on the call and we'll talk to you all again soon.

Karl Eggertsen: Okay Dan. Talk to you later.

Dan Eggertsen: Thanks a lot guys. Bye-bye.

Karl Eggertsen: Bye.

Dan Eggertsen: All right Dad. Thanks so much.

[18:55.9]