Understanding stock mutual funds

Stock mutual funds, also known as equity funds and typically seek long-term growth. The overall performance of the fund is dependent on the companies whose stocks they hold.

Stock funds historically have provided higher returns than either fixed income or stable value funds. They have also outpaced inflation better than the other asset classes.

Stock funds carry a higher risk potential than all the other asset classes so it's important to carefully review the fund's investment information and prospectus before investing.

WHAT YOU NEED TO KNOW

- Historically, stock mutual funds have provided the highest returns and risks compared to the other asset classes.
- Stock mutual funds are categorized by size, style, geography, and sector.
- Stock mutual funds may offer the greatest potential for out-pacing inflation over the long-term.

Categories of stock mutual funds

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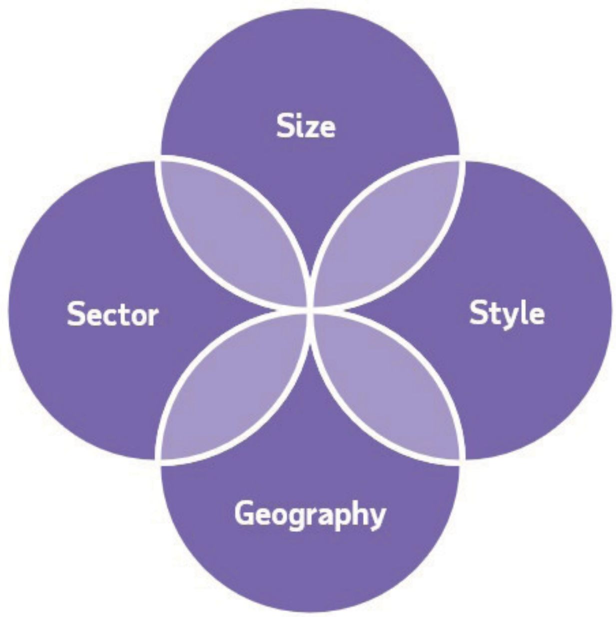

By size

Stock funds can be named for the size of the companies they invest in: small-, mid-, or large-cap. This is referred to as market capitalization.

Small-cap funds typically buy stocks of smaller, less familiar, and less stable companies valued between $300 million and $2 billion. Mid-cap funds typically buy stocks that fall between small and large-cap companies and valued between $2-$10 billion. Large-cap funds buy stocks of well-known and established companies valued at $10 billion or higher.

By style

Stock funds can be classified based on the style of companies they invest in: growth, value and blend.

Growth stock funds will invest in stocks of newer companies that have historically been able to expand their businesses faster than the average company and are expected to continue such progress. Growth stocks are generally considered higher risk investments. Value stock funds will invest in stocks of more established companies that have historically had slower earnings growth, but less steep growth through the years and make consistent dividend payments. These funds are relatively less risky than growth stock funds. Blend stock funds combine growth and value funds. The risks of these funds will include a combination of the risks associated with growth funds and value funds. As such, blend funds are difficult to classify in terms of risks, and their performance can vary considerably.

By geography

Stock funds can invest in companies that do business in the U.S., but also companies based internationally and in emerging markets — or areas that are poised for expansion.

Domestic funds will only invest in U.S. securities. **Global investments** usually buy stock in companies both inside the U.S. as well as other countries. **International investments** buy stock in companies outside the U.S. Depending on the fund, it may fall in the medium or high range of the risk/reward spectrum. These funds are sometimes considered their own asset class because of currency and political risk associated with them.

By sector

Stock funds are also classified by the specific areas they invest in, such as finance, healthcare and technology, etc. ESG or Environmental, Social and Governance Investing funds are included in this category. These types of funds are more volatile since they only focus on one area of the economy.

Retirement planning tools

In addition to when you start saving for retirement, and how much you plan to save, making sure the investments in your retirement portfolio are properly allocated is an important factor in pursuing your long-term financial goals.

Click here or scan the QR code to take advantage of the retirement planning tools and resources available in the ADP Achieve Engagement Hub.

This website includes:

- Personal investor profile questionnaire with sample asset allocation models
- Investment videos
- Interactive calculators

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