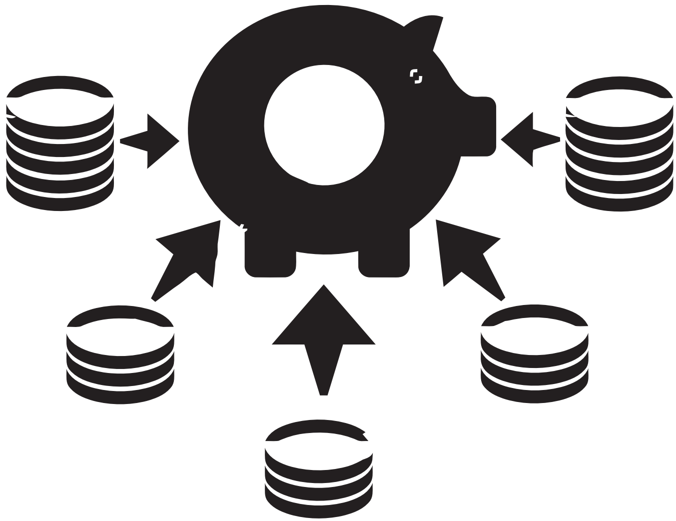
Mutual Funds

Definition of mutual funds



Investment tool, which is consisted of funds gathered from many investors to enable them to invest their money in securities such as stocks, bonds and other assets. Mutual funds are suitable for small investors or those who do not have sufficient experience or time to pursure his investments. Accordingly, professional money managers are responsible for the well operation of mutual funds; they invest the mutual funds' capital to create capital gains in case the mutual funds sell securities that have increased in prices. Therefore,

mutual funds are considered as a company that brings together a group of people for investing their money in financial markets in an indirect way and then distribute all the revenue achieved over the year among each investor depending on his proportion of shares in the mutual funds.

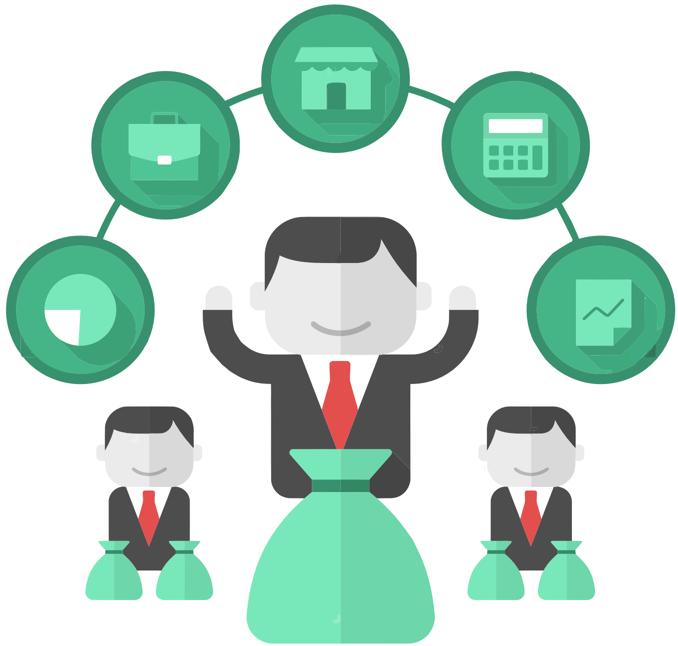
Establishment of mutual funds

Establishment of mutual funds went back to the presence of investment companies in the 19th century in Holland, then moving to France and Britain. Mutual funds appeared in USA for the first time at the end of the thirties of the last century. In 1940, a specific law for mutual funds have been issued to organize its composition and how it is going to operate and it is known as “the law of investment companies”.

In 1992, the Egyptian government issued a law allowing the establishment of mutual funds in order to invest its funds in stocks and bonds, which are listed in the Egyptian exchange. In addition, all mutual funds should nominate one of the competent bodies to manage its activities such as (mutual funds management companies).

Where are mutual funds investing your money?

Mutual funds are investing shareholders' money in stocks, bonds and other financial instruments. Mutual funds may invest part of this money in banking deposits while retain a portion of them in the form of liquid funds. Such things are determined according to each mutual funds' investment policy.



Types of mutual funds

There are two main types of mutual funds in Egypt:

- **Open mutual funds**

  Open mutual funds are established by insurance companies or banks. Sometimes banks are responsible for marketing and selling the mutual funds' shares from bonds and stocks and other assets.

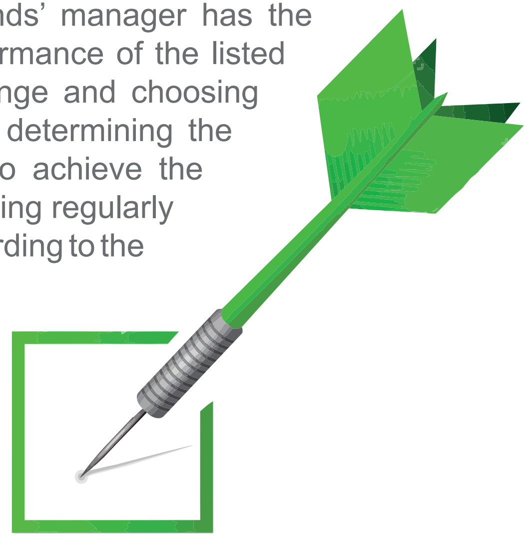
- **Closed mutual funds**

  Closed mutual funds are issued only once with limited quantities of shares (stocks, bonds ...) to all investors in the market to enable them to buy some of its shares. Also, investment's manager takes the mutual funds' money to be invested in the market. In case the investor wants to get back his investments, simply he can go to the Egyptian exchange and sells what he has from shares as if they are listed stocks at the Egyptian exchange.

Benefits of investing in mutual funds

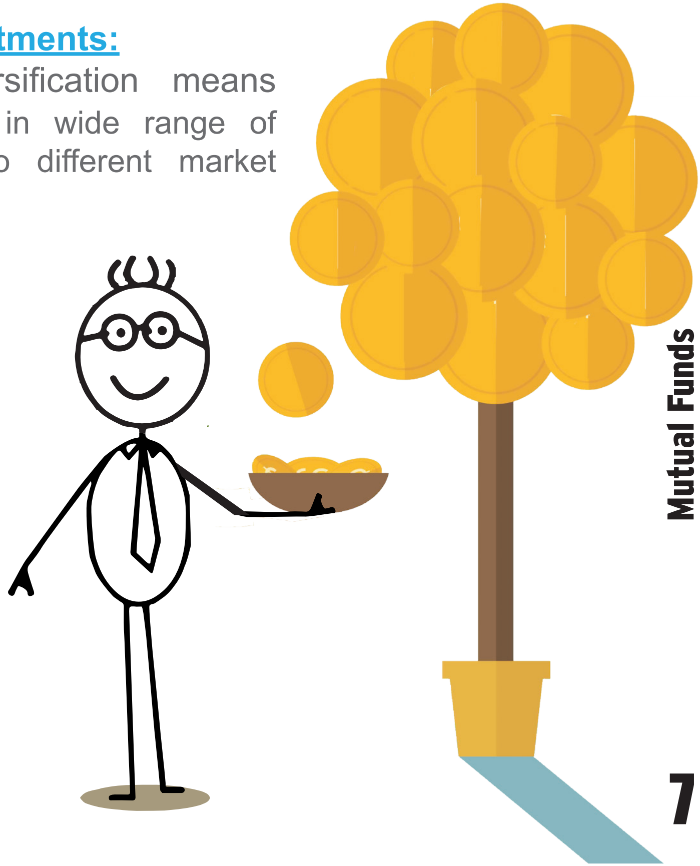
1. **Professional management:**

   When you invest in mutual funds, it is a great way to let someone professional handle your money if you do not have the time and experience as the mutual funds' manager has the responsibility of studying the performance of the listed companies at the Egyptian exchange and choosing the best out of them. In addition, determining the required strategy for investment to achieve the mutual funds' goals as well as revising regularly the mutual funds' performance according to the determined set of goals, which will be important for reconsidering the mutual funds' components from different securities through excluding or substituting some of them according to the changes at economic conditions.



2. Diversification of investments:

The concept of diversification means investing your money in wide range of securities that belong to different market sectors to avoid and decrease risks that may face any investor in the market. With mutual funds, you get the chance to spread out your money over a huge range of fields and sectors, which is impossible for a small investor to do that on his own. Therefore, diversification of investments decreases the possibility of losses, as in case of achieving losses due to a price



decrease in a certain financial paper, it will be compensated by a price increase in another financial paper. Therefore, the more you invest in different securities, the lesser the chance of loss.

3. **Mitigating risks:**

Where large financial capabilities and expertise are available at the mutual funds as professional financial experts moderate it, and such qualifications may be unavailable to small investors. That is why directing money to be invested in mutual funds is much more secure for small investors.

4. **Diversifying the investment objectives in line with the nature of each investor:**

As there are many mutual funds with different objectives depending on each investor’s business orientation such as: specified mutual funds that are investing money in specific market sectors as well as specific type of securities such as bonds with fixed returns.

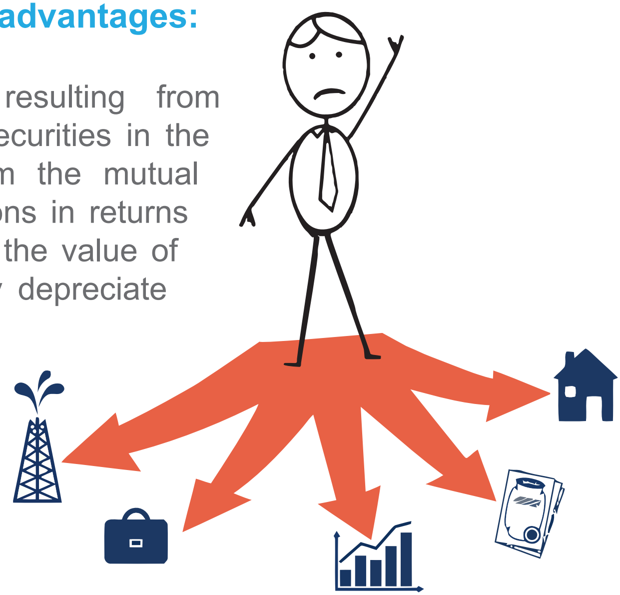
5. **Easy retrieval of invested money:**

Each investor has the ability of buying, selling, and retrieving of mutual funds’ shares in a simple and easy way. It is very important for each investor before deciding to invest his money in mutual funds, to consult his financial consultant that may be a broker in securities or any other financial consultant at any bank or investment company. Each consultant is responsible for analyzing investor’s financial needs and his investment goals in order to nominate the suitable mutual fund for him according to his investment objectives and financial position.

Some disadvantages of mutual funds:

Although investing in mutual funds have many benefits, but also mutual funds' investments are subject to some risks due to the following disadvantages:

- Financial market risks resulting from fluctuations in prices of securities in the stock exchange that form the mutual funds as well as fluctuations in returns due to the possibility that the value of mutual funds' shares may depreciate overtime.
- Lack of control as the mutual funds' investors are not able to determine the composition of the mutual funds' portfolio at any given time. In



addition, they have no impact to determine which securities the mutual funds' manager should buy especially small investors due to lack of expertise, which give incomplete image about the mutual fund and its activities.

- Some mutual funds tend to buy securities from regional and international stock markets, as a result investors' money go abroad without achieving any benefits for the national economy.
- Although mutual funds are regulated by the government but there is not enough guarantee when it comes to losses.
- Although diversification reduces the probability of risk resulted from investing in mutual funds, it can also be a disadvantage because if a single mutual fund's security doubles in value, the mutual fund itself will not double in value because that security represents a small portion of the total fund's holdings.

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