

Finance investor constraints and mutual funds



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YOUR FULL YOUR Choosing the Right Fund Mr. B is a widowed, sixty-nine year old retired machinist. His primary source of income is his social security check and interest earned on the \$ 200, 000. 00 he has saved over his lifetime; which is currently in a savings account at his local bank. He is looking for a good investment that will provide him with safety of principle (low-risk), a reasonable monthly income to supplement his government benefits (high-yield), and still have some money left to leave to his nephew when he dies. Accordingly, we will recommend a no-load, low-expense mutual fund as Mr. B. is not a sophisticated man who would be able to understand the intricacies of creating and monitoring a traditional portfolio of stocks and bonds.

Given the investment parameters and lifestyle needs of the client, we will look for a mutual fund that is primarily invested in domestic corporate bonds. Mr. B. is unwilling to take any large losses in his portfolio, so safety of principle will important. He needs a good return to provide monthly income and supplement his social security, and is willing to erode the principle somewhat over the next twelve years of his life expectancy. Accordingly, our fund search will focus on bond funds, as there is no need to consider higher risk investments in the international or growth stock sector. Since Mr. B. has neither the risk tolerance level nor the need to grow his portfolio, we will search for a managed bond fund that has low expenses. As for tax consideration, Mr. B. is currently in a low tax bracket and is looking for his money to provide the highest dependable return. Accordingly, he does not require a sophisticated tax strategy using municipal and other tax-advantaged investments.

The screening criteria are: High-yield bond, average manager tenure for the <https://assignbuster.com/finance-investor-constraints-and-mutual-funds/>

category, no-load funds only, category average fund expenses, four or five star rating from Morningstar, and a Morningstar risk level of below average (Morningstar, 1). This search returned ten funds: Buffalo High-Yield (BUFHX); Fidelity Advisor High Income (FHIAX); Fidelity Advisor High Income Instl (FHNIX); MassMutual Premier High Yield (DHLHYX); Northeast Investors (NTHIX); Regions Morgan Keegan Select Hi Inc A LW (MKHIX); Regions Morgan Keegan Select Hi Inc I (RHIX); T. Rowe Price High-Yield (PRHYX); T. Rowe Price High-Yield Adv (PAHIX); and Wells Fargo Advantage High Income I (SHYYX)(Morningstar, 1). We have chosen Northeast Investors for Mr. B. because of its higher yield, relatively low expense ratio, and its large asset base.

This fund meets the investment needs of Mr. B. because it is a no-load, low-expense fund that is currently returning a healthy 4.9% and has a three year average return of over 11%. The fund has a portfolio of corporate bonds (81%) that, while not risk free (mostly B or better), also carries some stocks (11%) and cash (5%) to mitigate any default risk. The large asset base is managed by Earnest Monrad, who has been with the company since 1960 (Northeast, 1). The balance of risk and return, coupled with a very experienced senior manager, makes this a good fit for our client. The performance of the portfolio will be monitored monthly to ensure that the Morningstar rating and good return are maintained.

Works Cited

Morningstar, " Search Screen." 14 April 2006. .

Northeast Investors, " Statistics." 14 April 2006. .