



FIN 366: INVESTMENTS

CRITICAL THINKING & CONCEPTUAL QUESTIONS

Chapter 4:

1. Who are the major institutional investors (or fund families) offering mutual funds and/or ETFs?
2. Why wouldn't investors just invest directly in different assets rather than through an investment company's fund?
3. Investment companies had combined total net assets of over \$25 trillion in 2019. What does this mean?
4. What type of investment company makes up the greatest percentage of total net assets? Which type is increasing its share?
5. Below are brief descriptions of various investment funds. Identify which type (or types) of fund each is:
 - a. Holds common stock shares of Taiwan Semiconductor, Alibaba Group, Samsung, and Toyota
 - b. Consists of holdings in companies that have pledged to be carbon-neutral before 2050
 - c. Invests in fixed income and equity securities, switching weightings of each as the manager chooses
 - d. Invests in Exxon, Chevron, Conoco Phillips, and Kinder Morgan, as well as other similar companies
 - e. Holds equity shares in proportion to the CRSP Total Market Index
 - f. A "Target Retirement" fund that invests more in conservative fixed income securities over time
 - g. Holds commercial paper, government securities, and certificates of deposit
 - h. Invests in common stock that the managers decide is most likely to perform well into the future.
 - i. An index fund whose shares can be bought on margin or sold short

6. Hedge funds, like mutual funds, pool investor assets to invest in various securities. Why, then, are they not investment companies by the SEC's definition?
7. What is the purpose of a mutual fund's prospectus?
8. Are active or index funds more likely to have higher expense ratios? Why might this be?
9. How does mutual fund *turnover* result in a tax liability to investors?
10. If a large shareholder would like to redeem their shares of a mutual fund, this could result in a taxable event for other holders of the mutual fund. Why is this *not* the case with ETFs?
11. Why is it that investors are not permitted to vote their shares at company annual meetings if they hold the shares through a mutual fund? For individual investors, does this make much of a difference?
12. On average, actively managed mutual funds underperform a broad market index fund. Why would anyone choose to invest in active funds?

