

Investing: Selecting Funds with “Style”

Most people are very style conscious about their choice of clothing, but they may be far less discriminating when it comes to their choice of **mutual funds**. What, you may ask, does style have to do with investing?

A fund’s name may not necessarily indicate its investment objectives, and some fund managers may, on occasion, veer away from their own stated goals. For example, if you were to invest in three mutual funds including an **aggressive growth fund**, a **growth fund**, and a **growth and income fund**, would you have achieved some measure of **diversification**? Perhaps, but perhaps not!

Style analysis, in its simplest form, is a way to categorize the types of investments made by a fund. As such, it provides an overview of the likely contents of an investment portfolio—a look behind the name. There are several well-respected sources of mutual fund data and information that can help you determine which mutual funds are in concert with your goals and objectives. One such source, *Morningstar*, places individual mutual funds into one of nine style boxes based on how the majority of the particular stocks held by the fund are categorized.

Now, if we return to the question posed at the outset—“What does style have to do with investing?”—we can see that by differentiating among funds on the basis of their investment style (including size), an investor may be able to avoid duplication in funds and diversify his or her portfolio. While past performance is never indicative of future returns, introducing style analysis into your mutual fund evaluation process can help you select funds that better fit your personal financial goals and tolerance for risk.

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Let's Have a Conversation

Paul Litchfield, CPA, MBA

Financial Advisor

Five Star Wealth Manager* · Top 100 in Finance Magazine*

OFFICE	(617) 863-2147
MOBILE	(781) 552-9475
EMAIL	litchfieldfinancialgroup@claroadvisors.com
WEB	www.litchfieldfinancialgroup.com
ADDRESS	100 High Street, Suite 950, Boston, MA 02110

Claro Advisors, LLC D/B/A Litchfield Financial, LLC

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