**13.1 Ray’s Dilemma: Common Stocks or Mutual Funds?**

Ray Sutton has worked in the management services division of Strategic Consultants for the past 5 years. He currently earns a n annual salary of about %95,000. At 33, he’s still a bachelor and has accumulated about $60,000 in savings over the past few years. He keeps his savings in a money market account, where it earns about 3% interest. Ray wants to get “a bigger bang for his buck” and so has considered withdrawing $50,000 from his money market account and investing it I the stock market. He feels that such an investment can easily earn more than 3%. Cheryl Dodd, a close friend, suggest that he invest in mutual fund shares. Ray has approached you, his broker for advice.

1. Explain to Ray the key reasons for purchasing mutual fund shares.

2. What special fund features might help Ray achieve his investment objectives?

3. What types of mutual funds would you recommend to Ray?

4. What recommendations would you make regarding Ray’s dilemma about whether to go into stocks or mutual funds? Explain.

**13.2 Jennifer Ponders Mutual Funds**

Jennifer Hollins is the director of a major charitable organization in Lexington, KY. A single mother of one young child, she earns what could best be described as a modest income. Because charitable organizations aren’t known for their generous retirement programs, Jennifer has decided it would be best for her to do a little investing on her own. She’d like to set up a program to supplement her employer’s retirement program and, at the same time, provide some funds for her child’s college education (which is still 12 yrs away). Although her income is modest, Jennifer feels that with careful planning she could probably invest about $350 a quarter, and she hopes to increase this amount over time. Jennifer now has about $15,000 in a bank savings account, which she’s willing to use to kick off this program. In view of her investment objectives, she isn’t interested in taking a lot of risk. Because her knowledge of investment extends no farther than savings accounts, series EE bonds, and a little bit about mutual funds, she approaches you for investment advice.

1. In view of Jennifer’s long-term investment goals, do you think mutual funds are an appropriate investment vehicle for her?

2. Do you think she should use her $15,000 savings to start off a mutual fund investment program?

3. What type of mutual fund investment program would you set up for Jennifer? In your answer, discuss they types of funds you’d consider, the investment objectives you’d set, and any investment services (such as withdrawal plans) you’d seek. Would taxes be an important considerations in your investment advice? Explain.

4. Do you think some type of real estate investment would make sense for Jennifer? If so, what type would you suggest? Explain.