



BUY AND SELL RULES FOR MUTUAL FUNDS AND ETFs

12 RULES TO CONSIDER WHEN DEVELOPING YOUR OWN BUY/SELL RULES

1. Does it meet your allocation needs?
2. Do you understand the fund's objective and strategy?
 - a. Look at the fund's fact sheet, its prospectus and portfolio holdings—all of which are available on the fund family's website. If the strategy isn't what you expected or you don't understand it, then it's not the right fund for you.
3. Has the objective or investment approach changed?
 - a. If so, determine if it's still the right fund for you.
4. How is the performance relative to category peer mutual funds and ETFs?
 - a. Compare returns for a fund against similar funds (e.g. a small-cap value fund vs. another small-cap value fund)
5. When seeking to buy a mutual fund or ETF, a record of outperforming similar over several years is a good sign.
 - a. Ideally, you want a fund that has outperformed its category peers over annualized three, five and 10-year periods (A+ Investor grades of A or B)
6. Funds that have consistently underperformed their peers over the past few years may be candidates for replacement.
 - a. Look for funds with A+ Investor return grades of A or B for several years.
7. Take note of the category risk ratio.
 - a. More risk can lead to better longer returns but the volatility may not be desired by all investors.
 - b. It tells you if a fund's returns have been more volatile (a score above 1.0) or less volatile (a score below 1.0).





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8. Lower expense ratios are better. The higher the expense ratio, the higher the return a fund has to earn just to breakeven with a lower-cost fund.

- a. Target funds whose A+ Investor expense ratio grades are A or B. Higher-than-average expense ratios require higher-than-average returns just to give you the same after-expense ratio return.

9. Interest Rate Sensitivity

- a. If looking at a bond fund, this measure tells you whether the the portfolio is more or less sensitive to changes in interest rates. Bond funds with higher returns than their peers when interest rates were falling or flat may have achieved the better performance by taking on more risk.

10. R-Squared

- a. If looking at an actively managed fund, seek a lower R-Squared value. The lower the value, the less the fund's returns can be explained by movement in the S&P 500.

11. For active funds, has there been a recent change in the manager?

- a. A change in the manager can be a positive or a negative. If you own the fund, you may want to monitor the performance and portfolio changes going forward.
- b. If you don't own the fund, you may want to monitor it first.
- c. Keep in mind that many funds are now using a committee approach to management so the departure of one individual may not be as significant as it once was.





Selecting and Managing
Your Investments

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12. For index funds, has there been a change in the underlying index?
- a. If so, ask the fund company what the change was.
 - b. A change from one index provider to another (e.g. S&P Dow Jones Indices to FTSE Russell) may not be significant.
 - c. An index change that significantly alters the strategy could be reason to sell.

Note: The quantitative data listed here can be found in our mutual fund and ETF guides. This information is also available on the mutual fund and ETF evaluators.

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