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Best mutual funds for 2020

Index funds are popular with investors because they promise ownership of a wide variety of stocks, greater diversification and lower risk – usually all at a low cost. That’s why many investors, especially beginners, find index funds to be superior investments to individual stocks.Some of the most watched indexes fill up the financial news every night, whether it’s the Standard & Poor’s 500 (S&P 500), the Nasdaq Composite, or the Dow Jones Industrial Average. These indexes are often shorthand for the performance of the market, and investors track them to get a read on how stocks as a whole are faring.Here’s everything you need to know about index funds, including ten of the top ones to consider adding to your portfolio this year.The list below includes index funds from a variety of companies tracking a variety of broadly diversified indexes and it includes some of the lowest-cost funds you can buy and sell on the public markets. When it comes to index funds like these, one of the most important factors in your total return is cost. Included are three mutual funds and seven ETFs:1. Fidelity ZERO Large Cap Index (FNILX)The Fidelity ZERO Large Cap Index mutual fund is part of the investment company’s foray into mutual funds with no expense ratio, thus its ZERO moniker. The fund doesn’t officially track the S&P 500 – technically it follows the Fidelity U.S. Large Cap Index – but the difference is academic. The real difference is that investor-friendly Fidelity doesn’t have to cough up a licensing fee to use the S&P name, keeping costs lower for investors.Expense ratio: 0 percent. That means every $10,000 invested would cost $0 annually.2. Shelton NASDAQ-100 Index Direct (NASDX)The Shelton Nasdaq-100 Index Direct ETF tracks the performance of the largest non-financial companies in the Nasdaq-100 Index, which includes primarily tech companies. This mutual fund began trading in 2000 and has a strong record over the last five and ten years.Expense ratio: 0.5 percent. That means every $10,000 invested would cost $50 annually.3. Invesco QQQ Trust ETF (QQQ)The Invesco QQQ Trust ETF is another index fund that tracks the performance of the largest non-financial companies in the Nasdaq-100 Index. This ETF started trading in 1999, and it’s managed by Invesco, a fund giant. This fund is the top-performing large-cap fund in terms of total return over the 15 years to Sept. 2021, according to Lipper.Expense ratio: 0.20 percent. That means every $10,000 invested would cost $20 annually.As its name suggests, the Vanguard S&P 500 tracks the S&P 500 index, and it’s one of the largest funds on the market with hundreds of billions in the fund. This ETF began trading in 2010, and it’s backed by Vanguard, one of the powerhouses of the fund industry.Expense ratio: 0.03 percent. That means every $10,000 invested would cost $3 annually.5. SPDR S&P 500 ETF Trust (SPY)The SPDR S&P 500 ETF is the granddaddy of ETFs, having been founded all the way back in 1993. It helped kick off the wave of ETF investing that has become so popular today. With hundreds of billions in the fund, it’s among the most popular ETFs. The fund is sponsored by State Street Global Advisors — another heavyweight in the industry — and it tracks the S&P 500.Expense ratio: 0.095 percent. That means every $10,000 invested would cost $9.50 annually.6. Vanguard Russell 2000 ETF (VTWO)The Vanguard Russell 2000 ETF tracks the Russell 2000 Index, a collection of about 2,000 of the smallest publicly traded companies in the U.S. This ETF began trading in 2010, and it’s a Vanguard fund, so it focuses on keeping costs low for investors.Expense ratio: 0.10 percent. That means every $10,000 invested would cost $10 annually.7. iShares Core S&P 500 ETF (IVV)The iShares Core S&P 500 ETF is a fund sponsored by one of the largest fund companies, BlackRock. This iShares fund is one of the largest ETFs and it tracks the S&P 500. With an inception date of 2000, this fund is another long-tenured player that’s tracked the index closely over time.Expense ratio: 0.03 percent. That means every $10,000 invested would cost $3 annually.8. Schwab S&P 500 Index Fund (SWPPX)With tens of billions in assets, the Schwab S&P 500 Index Fund is on the smaller side of the heavyweights on this list, but that’s not really a concern for investors. This mutual fund has a strong record dating back to 1997, and it’s sponsored by Charles Schwab, one of the most respected names in the industry. Schwab is especially noted for its focus on making investor-friendly products, as evidenced by this fund’s razor-thin expense ratio.Expense ratio: 0.02 percent. That means every $10,000 invested would cost $2 annually.9. Vanguard Total Stock Market ETF (VTI)Vanguard also offers a fund that covers effectively the entire universe of publicly traded stocks in the U.S., known as the Vanguard Total Stock Market ETF. It consists of small, medium and large companies across all sectors. The fund has been around for a while, having begun trading in 2001. And with Vanguard as the sponsor, you know the costs are going to be low.Expense ratio: 0.03 percent. That means every $10,000 invested would cost $3 annually.10. SPDR Dow Jones Industrial Average ETF Trust (DIA)You don’t have a lot to choose from when it comes to ETFs tracking the Dow Jones Industrial Average, but State Street Global Advisors comes through with this fund that tracks the 30-stock index of large-cap stocks. The fund is definitely one of the earlier ETFs, having debuted in 1998, and it has tens of billions under management.Expense ratio: 0.16 percent. That means every $10,000 invested would cost $16 annually.Why are index funds so popular?Index funds based on major indexes are popular for many reasons. These funds offer a good return over time, they’re diversified and a relatively low-risk way to invest in stocks. Attractive returns – Like all stocks, major indexes will fluctuate. But over time indexes have made solid returns, such as the S&P 500’s long-term record of about 10 percent annually. That doesn’t mean index funds make money every year, but over long periods of time that’s been the average return. Diversification – Investors like index funds because they offer immediate diversification. With one purchase, investors can own a wide swath of companies. One share of an index fund based on the S&P 500 provides ownership in hundreds of companies, while a share of Nasdaq-100 fund offers exposure to about 100 companies. Lower risk – Because they’re diversified, investing in an index fund is lower risk than owning a few individual stocks. That doesn’t mean you can’t lose money or that they’re as safe as a CD, for example, but the index will usually fluctuate a lot less than an individual stock. Low cost – Index funds can charge very little for these benefits, with a low expense ratio. For larger funds you may pay $3 to $10 per year for every $10,000 you have invested. In fact, one fund (listed above) charges you no expense ratio at all. When it comes to index funds, cost is one of the most important factors in your total return. While some funds such as S&P 500 or Nasdaq-100 index funds allow you to own companies across industries, other funds own only a specific industry, country or even investing style (say, dividend stocks).How to invest in an index fund in 3 easy stepsIt’s surprisingly easy to invest in an index fund, but you’ll want to know what you’re investing in, not simply buy random funds that you know little about.1. Research and analyze index fundsYour first step is finding what you want to invest in. While an S&P 500 index fund is the most popular index fund, they also exist for different industries, countries and even investment styles. So you need to consider what exactly you want to invest in and why it might hold opportunity: Location: Consider the geographic location of the investments. A broad index such as the S&P 500 or Nasdaq-100 owns American companies, while other index funds might focus on a narrower location (France) or an equally broad one (Asia-Pacific). Business: Which industry or industries is the index fund investing in? Is it invested in pharma companies making new drugs, or maybe tech companies? Some funds specialize in certain industries and avoid others. Market opportunity: What opportunity does the index fund present? Is the fund buying pharma companies because they’re making the next blockbuster drug or because they’re cash cows paying dividends? Some funds invest in high-yield stocks while others want high-growth stocks. You’ll want to carefully examine what the fund is investing in, so you have some idea of what you actually own. Sometimes the labels on an index fund can be misleading. But you can check the index’s holdings to see exactly what’s in the fund.2. Decide which index fund to buyAfter you’ve found a fund you like, you can look at other factors that may make it a good fit for your portfolio. The fund’s expenses are huge factors that could make – or cost – you tens of thousands of dollars over time. Expenses: Compare the expenses of each fund you’re considering. Sometimes a fund based on a similar index can charge 20 times as much as another. Taxes: For certain legal reasons, mutual funds tend to be less tax-efficient than ETFs. At the end of the year many mutual funds pay a taxable capital gains distribution, while ETFs do not. Investment minimums: Many mutual funds have a minimum investment amount for your first purchase, often several thousand dollars. In contrast, many ETFs have no such rule, and your broker may even allow you to buy fractional shares with just a few dollars. 3. Purchase your index fundAfter you’ve decided which fund fits in your portfolio, it’s time for the easy part – actually buying the fund. You can either buy directly from the mutual fund company or through a broker. But it’s usually easier to buy a mutual fund through a broker. And if you’re buying an ETF, you’ll need to go through your broker.Things to consider when investing in index fundsAs you’re looking at index funds, you’ll want to consider the following factors: Long-run performance: It’s important to track the long-term performance of the index fund (ideally at least five to ten years of performance) to see what your potential future returns might be. Each fund may track a different index or do better than another fund, and some indexes do better than others over time. Long-run performance is your best gauge to what you might expect in the future, but it’s no guarantee, either. Expense ratio: The expense ratio shows what you’re paying for the fund’s performance on an annual basis. For funds that track the same index, such as the S&P 500, it makes little sense to pay more than you have to. Other index funds may track indexes that have better long-term performance, potentially justifying a higher expense ratio. Trading costs: Some brokers offer very attractive prices when you’re buying mutual funds, even more so than the same mutual fund company itself. If you’re going with an ETF, virtually all major online brokers now allow you to trade without a commission. Also, if you’re buying a mutual fund, beware of sales loads, or commissions, which can easily lop off 1 or 2 percent of your money before it’s invested. These are easy to avoid by choosing funds carefully, such as those from Vanguard and many others. Fund options: Not all brokers will offer all mutual funds, however. So you’ll need to see whether your broker offers a specific fund family. In contrast, ETFs are typically available at all brokers because they’re all traded on an exchange. Convenience: It may be a lot easier to go with a mutual fund that your broker offers on its platform rather than open a new brokerage account. But going with an ETF instead of a mutual fund may also allow you to sidestep this issue. Can an index fund investor lose everything?Putting money into any market-based investment such as stocks or bonds means that investors could lose it all if the company or government issuing the security runs into severe trouble. However, the situation is a bit different for index funds because they’re often so diversified.An index fund usually owns at least dozens of securities and may own potentially hundreds of them, meaning that it’s highly diversified. In the case of a stock index fund, for example, every stock would have to go to zero for the index fund, and thus the investor, to lose everything. So while it’s theoretically possible to lose everything, it doesn’t happen for standard funds.That said, an index fund could underperform and lose money for years, depending on what it’s invested in. But the odds that an index fund loses everything are very low.What is considered a good expense ratio?Mutual funds and ETFs have among the cheapest average expense ratios, and the figure also depends on whether they’re investing in bonds or stocks. In 2020, the average stock index mutual fund charged 0.06 percent (on an asset-weighted basis), or $6 for every $10,000 invested. The average stock index ETF charged 0.18 percent (asset-weighted), or $18 for every $10,000 invested.Index funds tend to be much cheaper than average funds. Compare the numbers above with the average stock mutual fund (on an asset-weighted basis), which charged 0.54 percent, or the average stock ETF, which charged 0.18 percent. While the ETF expense ratio is the same in each case, the cost for mutual funds generally is higher. Many mutual funds are not index funds, and they charge higher fees to pay the higher expenses of their investment management teams.So anything below the average should be considered a good expense ratio. But it’s important to keep these costs in perspective and realize that the difference between an expense ratio of 0.10 percent and 0.05 percent is just $5 per year for every $10,000 invested. Still, there’s no reason to pay more for an index fund tracking the same index.Is now a good time to buy index funds?If you’re buying a stock index fund or almost any broadly diversified stock fund such as the Nasdaq-100, it can be a good time to buy if you’re prepared to hold it for the long term. That’s because the market tends to rise over time, as the economy grows and corporate profits increase. In this regard, time is your best friend, because it allows you to compound your money, letting your money make money. That said, narrowly diversified index funds (such as funds focused on one industry) may do poorly for years.That’s one reason why it’s crucial for investors to stick with a patient approach to ride out any short-term volatility. Experts recommend adding money to the market regularly to take advantage of dollar-cost averaging and lower their risk. A strong investing discipline can help you make money in the market over time. Investors should avoid timing the market, that is, jumping in and out of the market to capture gains and dodge losses.Index fund FAQ:If you’re looking to get into index funds, you may still have a few more questions. Here are answers to some of the most frequently asked questions that investors have about them.How do index funds work?An index fund is an investment fund – either a mutual fund or an exchange-traded fund (ETF) – that is based on a preset basket of stocks, or index. This index may be created by the fund manager itself or by another company such as an investment bank or a brokerage.These fund managers then mimic the index, creating a fund that looks as much as possible like the index, without actively managing the fund. Over time the index changes, as companies are added and removed, and the fund manager mechanically replicates those changes in the fund.Because of this approach, index funds are considered a type of passive investing, rather than active investing where a fund manager analyzes stocks and tries to pick the best performers.This passive approach means that index funds tend to have low expense ratios, keeping them cheap for investors getting into the market.Some of the most well-known indexes include the S&P 500, the Dow Jones Industrial Average and the Nasdaq-100. Indexing is a popular strategy for ETFs to use, and most ETFs are based on indexes.What sort of fees are associated with index funds?Index funds may have a couple different kinds of fees associated with them, depending on which type of index fund: Mutual funds: Index funds sponsored by mutual fund companies may charge two kinds of fees: a sales load and an expense ratio. A sales load is just a commission for buying the fund, and it may happen when you buy or when you sell or over time. Investors can usually avoid these by going with an investor-friendly fund company such as Vanguard, Schwab or Fidelity. An expense ratio is an ongoing fee paid to the fund company based on the assets you have in the fund. Typically these are charged daily and come out of the account seamlessly. ETFs: Index funds sponsored by ETF companies (many of which also run mutual funds) charge only one kind of fee, an expense ratio. It works the same way as it would with a mutual fund, with a tiny portion seamlessly deducted each day you hold the fund. ETFs have become more popular recently because they help investors avoid some of the higher fees associated with mutual funds. ETFs are also becoming popular because they offer other key advantages over mutual funds.Bottom lineThese are some of the best index funds on the market, offering investors a way to own a broad collection of stocks at low cost, while still enjoying the benefits of diversification and lower risk. With those benefits, it’s no surprise that these are some of the largest funds on the market.Learn more:Editorial Disclaimer: All investors are advised to conduct their own independent research into investment strategies before making an investment decision. In addition, investors are advised that past investment product performance is no guarantee of future price appreciation.

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