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May 2010

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More importantly,
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Publisher:
Dan L. Shillingburg

Editor:
Cindy Ludlow

Advertising Sales Manager:
Jeffrey S. Zeigler

The Daily Reporter Inc.
580 South High Street, Suite 316,
Columbus, Ohio 43215-5644
614-228-NEWS (6397)
Fax: 614-224-8649
e-mail: cdr@sourcenews.com

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Mutual funds:

10 questions to test your financial IQ



Mutual funds are a cornerstone
of retirement planning.

Yet they're widely
misunderstood and
investing ignorance can
really cost you.

Do you know the
difference between an expense
ratio and a turnover ratio? What about
an open-end fund versus a closed-end? Try this quiz,
and go to the answers on page 14 to see how well you did.

- 1 What percentage of households own mutual funds?
(a) 10 percent; (b) 27 percent; (c) 43 percent
- 2 When was the key law governing mutual fund
operations adopted?
(a) 1929; (b) 1933; (c) 1934; (d) 1940
- 3 How many mutual funds are there in the U.S?
(a) Nearly 1,000; (b) Nearly 4,000; (c) Nearly 8,000
- 4 What is a mutual fund's expense ratio?
(a) The sales fee paid when you invest in a fund,
expressed as a percentage of how much you invest;
(b) The total fees charged to manage the fund and
cover ongoing expenses, expressed as a percentage of
the fund's assets;
(c) The fee you pay to a broker who sells you the fund
- 5 What's a fund's turnover ratio?
(a) A measure of how often a fund's manager is
replaced;
(b) How frequently the fund trades stocks or other
investments in and out of its portfolio;
(c) How often the fund gets new investors and loses
existing clients
- 6 Traditional open-end mutual funds can issue as
many or as few shares as investors demand, with
potentially no limits on the number of investors in
the fund, or the amount of money it can hold.
(a) True; (b) False
- 7 Common stock funds will always provide investors
with higher returns than bond mutual funds.
(a) True; (b) False
- 8 Mutual funds are prohibited from using investing
strategies that unregulated hedge funds can employ.
(a) True; (b) False
- 9 You can lose money in an absolute return mutual
fund.
(a) True; (b) False
- 10 Fund managers' interests should be aligned with their
investors. But what percentage of managers don't
invest in their funds — in other words, how many
don't "eat their own cooking"?
(a) 10 percent; (b) 35 percent; (c) More than 50 percent

(See Answers, Page 14)

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Learn staff's goals, but keep relationships on a professional level

It's important for small firms and solo attorneys to get everything they can out of support staff. After all, they are the jacks-of-all-trades that keep firms ticking while the lawyers devote most of their attention to the work at hand.

Part of getting 100 percent out of support staff is managing that relationship. For a firm to be successful, the attorneys in charge have to deftly handle their interaction with staff, on both a personal and professional level.

On the personal side, it's good to have a strong, friendly rapport. It promotes cohesion and, face it, it's easier to come to work when you like the faces you see. That said, there have to be boundaries to prevent "close" from becoming "too close."

"You've got to keep clear that you're the employer and they're the employee, and they're not there to be your therapist or your social worker," cautioned Sheila

Blackford, practice management advisor for the Oregon State Bar Professional Liability Fund.

Blackford, who regularly writes for the American Bar Association's Law Practice Today Webzine, works with small firms and solo practitioners on practice management issues.

She said the best way to handle problems with your supporting cast is to stop the problems before they start. The first step is to clearly spell out all of the particulars regarding employment.

It seems obvious, but at a small operation, partners sometimes forget to make policies for issues such as vacation time, overtime or family illness. Can vacation time be parceled out or does it have to be taken all at once? Is there a concrete tardiness policy? With only a handful of people on staff, clearly and concisely writing out the rules will save headaches down the line.

"You should formalize your relationship and job description and have that in writing to protect yourself," said Blackford.

Beyond formalizing policies in writing, Blackford said, it's crucial to make sure the professional relationship stays professional. It sounds simple, but it's more difficult in practice.

"You're craving some kind of interaction, so you have to be aware of the situation," said Blackford. "What starts happening is they inadvertently start treating their support staff like a partner, and then when they try to step in for the boss role, there's a big push back."

She said that often support staff are younger people who are just entering the workforce, or perhaps someone who had been a stay-at-home parent who is adjusting to being on the job. Either way, they may not fully understand the roles of "boss" and "employee."

In that situation, it's up to the lawyer to set the tone.

"They don't know how to act professionally," said Blackford. "It's up to the lawyer."

The challenge for many lawyers is in their nature, she said. Attorneys are keen on giving advice, so when a co-worker has a personal problem, the lawyer wants to help. That just makes it harder to step in and be the boss later on, though.

"Just don't get yourself involved," advised Blackford. "They're getting wrapped up in all of this drama, and then there's absenteeism. I can't put my foot down because she's making all these mistakes but it's probably because she was waiting up all night dealing with issues at home."

If personal matters are checked at the door, it's better for both employer and employee alike. Both parties can focus on work and ignore the perils of life outside the office.

That said, it's also important for attorneys to take a personal interest in their support staff's professional lives.

A challenge for many lawyers to understand is that, for many legal secretaries and paralegals, their jobs are their careers. Knowing your support staff's professional goals is key for them to achieve maximum productivity.

"There are people who look forward to being a secretary, who look forward to being a paralegal," said Blackford. "Not everyone wants to be a lawyer."

Sit down and talk to employees about their professional goals. If they want to turn a job as a legal secretary or paralegal into a career, consider what can be done to encourage their professional development. Maybe pay for them to be part of a professional organization, or offer to help subsidize continuing education. That investment could pay dividends in the form of increased productivity and the sense that the employee feels valued.

"Attorneys take their careers seriously, and their (support staff) take their professions as paralegals just as seriously," said Blackford.

If your staff members are looking to continue up the professional ladder, take an interest in that too. Think about the mentors you may have had early in your career, and try to help them get the same positive experiences.

By taking an active interest in your support staff and building a relationship that's strong both personally and professionally, you can form a team that works with a high level of trust, cohesion and loyalty. For the small firm on a budget, that investment pays off with synergy at the workplace.

~ JOSH LEHMAN

Marketing advice: Tweet, Think, Teach and Tweak

In March, the Legal Marketing Association held its annual conference in Denver, Colo. Over the course of the event, three marketing trends emerged as forecasts of what the future holds for law firms.

Social Media is Here to Stay

"If I learned anything at this year's conference, I learned that social media is a force to be reckoned with in the legal community," said Jill Rako of Bricker and Eckler. "For a long time I think a lot of firms have said, 'let's see how this goes.' We have a business built on precedence, and with social media, that precedence doesn't exist."

Indeed, the use of Web 2.0 tools such as Twitter, blogging and Facebook finally may be catching hold in the legal community.

Traditionally, the challenge for law firms has been knowing how to successfully use Web 2.0 as a marketing vehicle. For many, simply defining what "success" is has been a daunting task.

"It's important for us to measure the return on our marketing investments in the legal community. To that end, how do you justify a dip into the Web 2.0 pool?" said Rako. "If we have an attorney who starts a blog or starts to Tweet, what kind of metrics are going to make that investment successful? Lots of different people are doing lots of different things."

She pointed to a mergers and acquisitions attorney who Tweets tidbits about local, regional and global deals. There is a California firm that has a blog roll prominently displayed on the home page of its website, right next to a link saying, "Follow us on Twitter."

It's a change from the status quo, and that's putting it lightly.

As straightforward as it sounds, the theme that emerged from social networking is the networking aspect of it, said Rako. The use of Web 2.0 establishes



credibility among clients and fellow attorneys alike. And while it's probably unlikely that a random person will stumble across a blog and become a new client, once traditional advertising methods get a firm's name in the potential client's head, that credibility boost might be the difference between a prospect calling your firm or your competition.

Of course, there still are issues to sort out.

"For as many benefits, there are going to be as many challenges as well," said Rako. "You may post something on the blog that is incongruous with something another attorney at the firm will say. What kinds of policies are in place? How are you going to handle those issues when they do pop up? There are pros and there are cons."

She said she wasn't aware of any problems along those lines yet, but it bears watching in the future.



Know your Plan

"I think that law firms need to be very strategic in their approach," said Rako. "They need to know who they are and where they want to be as a firm. You wouldn't get in a car and just drive aimlessly around. It's the same thing as we plan our future in law firms. You need to have a map, have a plan."

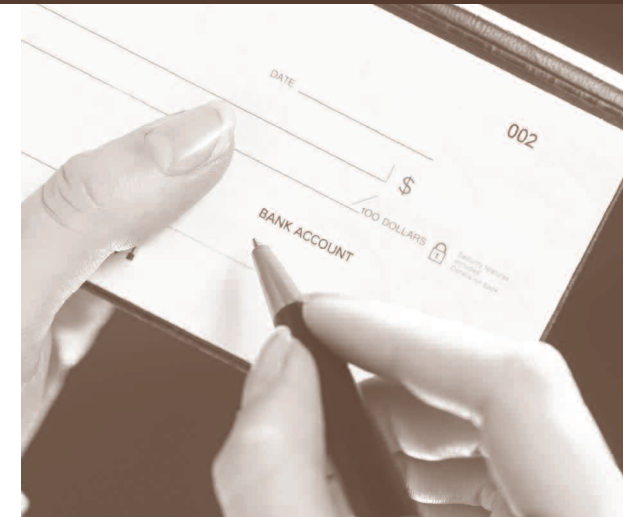
Business plans have to be as unique as the firms that write them, so there are no easy answers. Some firms bring in outside help while others rely solely on ideas in the conference room, but identifying success, how to quantify it and how to achieve it is important for every firm.

"Know who you are and know who you're not," said Rako. "This is true in any industry. It's important to build a plan based on who you are and what your DNA is, not based on looking at your competitor and saying, 'I like that.' Work to your strengths and work within the boundaries of your culture."

Once the plan is designed, it has to be implemented or it's useless. It has to be concise enough so every member of your team will understand it. Without buy-in, that road map will lead to nowhere.

"The worst thing that a law firm can do is write a strategic plan and throw it on the shelf to collect dust," said Rako. "You've got to take that plan and make it active and living and breathing."

When forming a strategy, be open to new ideas. If your staff contributes to the gameplan, they'll bring the same hustle to work that you do.



Alternative Billing

"We heard a lot about alternative fee arrangements and alternative billing, but I'm not convinced that anybody has the magic bullet yet," said Rako.

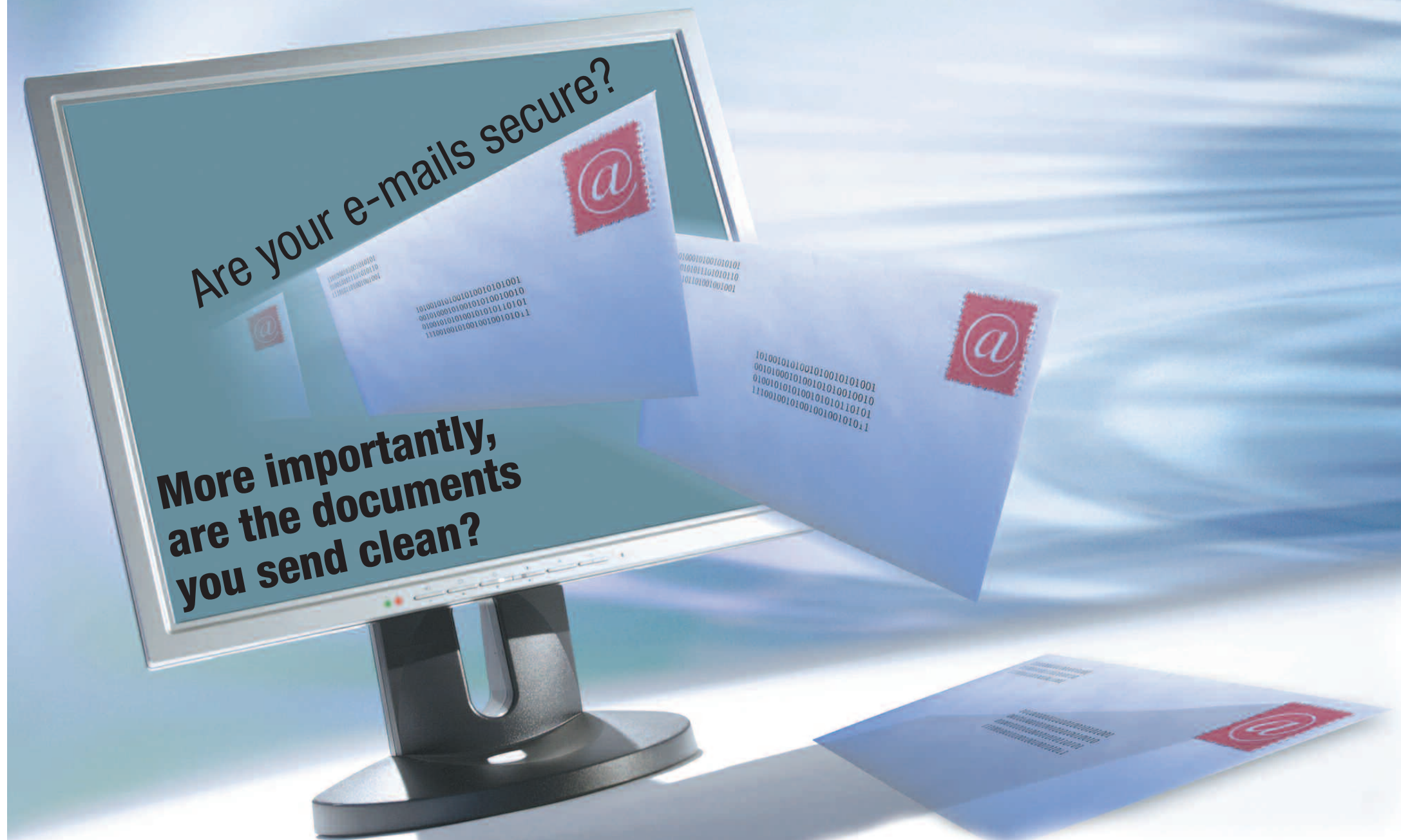
Indeed, alternative fee arrangements are hardly a new topic, but they continue to be hot in the legal industry. There hasn't yet been a universally accepted replacement to the billable hour, but more and more clients are demanding alternatives to writing a blank check.

"Clients have options. That was made very clear in this time of recovery," said Rako. "We're seeing other professional service industries and some of them are commoditizing their services. Specifically with architectural firms and accounting firms. Often times, with the legal world, things just aren't that clean or neat. It's a challenging prospect to think through because you want to be fair to everybody involved."

Despite the challenges, some firms are doing it successfully, and Rako noted there are some firms that have abandoned the traditional method altogether.

Communication is critical. Clients don't want the billable hour, but are often skeptical of other arrangements because they fear that an attorney is going to charge them even more than they would otherwise. The common philosophy amongst lawyers: Keep the dialogue open and try to work with the clients to find a solution that does right by everyone.

~ JOSH LEHMAN



A recent survey in the American Bar Association's *Law Practice Magazine* showed a troubling trend when it comes to technology. Simply put, law firms often aren't doing enough to protect sensitive information from potentially prying eyes.

The survey points out that technology has made communication faster and easier, but also less secure. While 93 percent of law firms said they sent confidential information through e-mail, 85 percent rely on confidentiality statements, and less than a quarter encrypt messages. Furthermore, many attorneys are giving away information without even realizing it.

According to Bob Ellis, managing partner at Peterson, Ellis, Fergus & Peer LLP, some of these issues are more

serious than others, and the most problematic might not be the most obvious.

For starters, unencrypted e-mail is, for the most part, harmless.

"It has been universally found to be ethical and unobjectionable for attorneys to send unencrypted e-mails to their clients without violating confidentiality," said Ellis, of the digital communication issue.

Since almost all legal communication is privileged information, even the most simple e-mail, such as a billing notice, fits under that umbrella, he said. As long as firms use common sense when deciding when to take extra steps and when not to, it shouldn't be an issue.

"You're not going to send, via unencrypted e-mail, data

regarding highly sensitive information beyond financial figures and routine client confidences," said Ellis.

At times, taking too many protective steps can actually hinder the representation.

Encrypted or password protected messages can intimidate clients, said Ellis, and some clients may not take the time to open the mail if every message comes with the extra protection.

More important are the simpler steps, he said. Double check that you have the right addressee before hitting "send." If you're using a public wireless network, it might be prudent to hold off sending something until you're on a more secure connection, rather than relying on security through obscurity.

An issue that is more complicated than encryption and secure networks is metadata, data within the data, he said.

Whenever a person uses a word processor of any kind, certain things are tracked. The primary purpose of metadata is to make the program more efficient for the computer, and therefore easier for the user. However, the data collected can contain information ranging from embarrassing to critical.

Hidden comments, usernames and who the original author was are some of the things that can be contained in the metadata. It may seem trivial, but Ellis said it was "amazing" how often he used metadata to his advantage.

"If attorneys who are just starting out are not careful, they can reveal a lack of sophistication that they don't want to reveal," he said. "They should scrub it of any hidden data that they would prefer the other attorney did not see."

Using metadata, he said he can tell whether a document is original or a canned copy from a Web site, and sometimes he can see information that may have been deleted.

If your document shows that some legal Web site was the original author, you may look like a rookie, he noted. If your document has hidden information critical to the representation, you may have just blown the case.

"I look on other attorneys' documents every week, it's constantly something that people forget about," said Ellis.

For Microsoft Office documents, looking at metadata is as simple as clicking the "File" menu and clicking "Properties" while viewing a document. Several tabs will be visible that contain information about the document. On older versions, you may have to go through and individually change or remove what you don't want your boss or opposition to see. On newer versions, there is a "remove properties and personal information" button.

By taking a few extra steps, attorneys can protect themselves and their clients from the perils of the information age.

Of course, for the most critical and sensitive documents, Ellis recommended an old-school approach.

Remember hard copy?

"I think the profession has recognized that some types of information that are highly sensitive need to have an extra degree of protection and maybe you shouldn't send it via e-mail, encrypted or not," said Ellis.

~ JOSH LEHMAN

Lawyers often need to brush up on skills necessary for being a business owner



Schools aren't just looking at making individuals successful, they're also looking at ways to improve businesses.

Gone are the days when graduating from law school, passing the bar and hanging out your shingle were enough to get clients to come to your door. Today's attorney, especially one in a smaller or solo law firm, also needs business acumen.

It's not easy. Thinking like a lawyer and thinking like a businessman are not necessarily the same. Law schools typically prepare the aspiring practitioner to crunch case files, not numbers.

Some schools have caught up, and Central Ohio's are no exception. At The Ohio State University and Capital

University, a joint JD/MBA degree is offered to tomorrow's lawyers. Fortunately for those currently in practice, the schools haven't stopped there.

"This is not limited to just lawyers," said Garry McDaniel, assistant dean for professional training and development at Franklin University. "Most major professions, whether it's doctors, lawyers, dentists, optometrists, many are not taught how to run the business. Most professionals, successful professionals, will tell you that knowing the nuts and bolts of their profession is only half of success on the job. The other half

is dealing with people and actually running the business, and most people don't know that."

To help professionals master the other half of the battle, Franklin and OSU offer a variety of programs.

For those looking to go all the way, OSU has a full-time executive MBA program catered to professional life. Although it is an accelerated, comprehensive program, class is only held one week a month, Thursday through Saturday. Using technology to augment the classes in between sessions, it takes only 18 months to earn the degree.

"It's a very intense experience," said Lisa Antolino, director of learning and development for OSU's Fisher College of Business. "We do just about everything for them so they can just show up and go to class. The model is much better for people who travel and have demanding careers."

For those looking for an education that is still comprehensive but a little less demanding, OSU offers a certificate survey of MBA topics. Although it doesn't count for credit, participants of the twice-per-week program receive a certificate documenting their understanding of topics such as marketing, finance, information, accounting and technology.

Meanwhile, at Franklin, participants can pick and choose what subjects they study to cater their experience to address specific weaknesses. The university offers more than 50 workshops in six categories: human resources, leadership, organization improvement, professional development, sales and service, and supervision and management.

"At Franklin, our programs are much more practical and applied for the job than perhaps what other universities do," said McDaniel.

McDaniel said the workshops are centered around what Franklin has identified as four principal values of a successful business: providing direction, planning for the future, creating an inspirational environment and producing results.

"Most businesses fail," said McDaniel. "If you look at the leaders, oftentimes they fail because they're pursuing one

element of that model to the detriment of the others. They pursue results and say, 'nothing matters except results, not the way I treat my people, not the direction.'"

Like OSU, Franklin also offers a certificate program, though rather than a broad program, Franklin's certifications are in five specialties. Subjects include project leadership, sales and service, management and supervision, quality management and workplace excellence.

But schools aren't just looking at making individuals successful, they're also looking at ways to improve businesses.

Professionals from Franklin and OSU will come to a business and cater a program around that specific business' needs.

"A general course is great, but to go in and customize a workshop to a client's specific needs is often far more effective because we can sit down and talk with them about the challenges that they specifically face, how they like to work and we can customize to those requirements," said McDaniel. "They're apt to apply it more rapidly on the job."

"Sometimes if you're a company and you have enough people who you really want to educate, it can be really valuable for your folks," said Antolino.

For the small firm or solo practitioner who may not have a ton of money in the budget for continuing education, partnering with a few other similarly sized businesses is a great way to maximize impact for your dollar. Firms can chip in on the cost, which varies based on the depth of each individual offering, to help everybody get a leg up on their competition.

These individualized programs can be held on campus or at the location of the participants' choice.

By combining the proper business education with talented lawyers, the sky is the limit for Central Ohio's small firms. By partnering with local universities, realizing your goals could only be a few credit hours away.

~ JOSH LEHMAN

Home offices can be cost savers for attorneys who are up to the challenges.....

One of the biggest challenges facing solo practitioners is the high cost of office space. Even if there isn't a square foot of wasted real estate, that downtown office accounts for a significant chunk of the annual budget.

That's why some solo practitioners, including Columbus' William Richards, choose to work and play at the same location: home.

"When I decided to open a solo practice, I wanted to be able to offer low-cost services and the only way I could do that is to keep my overhead low," said Richards.

"Having a home office was definitely the way to do that. I don't have a big fancy office, I don't pay for a lot of square footage that I don't use or don't need, I don't have a big staff — so I can be pretty competitive with my billing rates."

The rates aren't the only advantage of working from home.

One of the biggest things that Richards enjoys about his situation is the flexible schedule. He eats lunch when he's hungry, rather than during a posted lunch hour, and if he has errands that have to be tended to during the day, he can take care of them and simply put in a few extra hours that night. The flexibility comes in handy for business that has to be taken care of during normal business hours.

"I've developed a schedule where my day is kind of fragmented," he said. "At the dinner hour, I'll look at what I've been able to accomplish and I'll say to myself, 'Well, I didn't accomplish what I wanted to, so I'll accomplish that at night.' But I know that's making up for something I did during the day. If I have to run an errand, I'll do it during the day when there's less traffic or crowds."

For many of today's attorneys, achieving the ideal work-life balance is a major priority. Richards said working from home has helped him meet this goal, but it can be a double-edged sword.

On the one hand, working from home allows him to be closer to the life issues that come up, so he can respond quickly to an emergency or take an afternoon off to spend time with the family.

On the other hand, he said, he sometimes finds himself

so immersed in work that he loses track of time, staying at the grindstone beyond the traditional 5:30 or 6 p.m. closing time.

It helps that his wife is in business with him, supporting him through bookkeeping, invoicing, accounting, billing and other administrative tasks. Since she has other things she wants to take care of after work, she often drags him away from the desk at the end of the day, he said.

"We seldom talk substantive work-related stuff after hours," said Richards. "We probably talk to the extent that any other spouse team would talk when the lawyer husband comes home to the teacher (or) nurse spouse. 'Ah, let me tell you what a bad day I had...' But it's not substantive."

There are other challenges associated with practicing law out of the home. Sometimes clients need to be met with face to face, and that presents an interesting situation, he said.

Sure, one would hope there's some degree of trust between an attorney and a client, but meeting at a person's home still breaches a boundary, and it might be unwise to talk about important, sensitive matters in a public setting such as a café.

Rental offices offer a nice middle ground.

"Invariably, I will meet clients for the first time at an off-site office," said Richards. "There are several locations around town where you can rent a day office or conference room by the hour."

He said he typically rents a space near Easton Town Center, which is easily accessible to most clients or potential clients. The fees are reasonable and are simply the cost of doing business.

Richards said solos working from home have some special circumstances. Since they are the bosses and the landlords — and the building managers, for that matter, the buck stops with them, whether it's a broken computer or wiring problems.

"This is true for all solos, but particularly for those who have a home office. When it comes to administrative stuff, if my printer's not working, I am it," he said. "When I was

in a large law firm, I'd pick up the phone and talk to the IT person and they'd fix it.

...You have to spend time doing those things yourself because it's quicker and cheaper than having somebody come out."

On top of that, a solo at home is going to be responsible for keeping track of all their own CLEs, malpractice insurance, advertising and networking. Without a commercial address, these efforts become even more crucial.

Before making the choice to work from home, it's important to do a self-analysis. A solo practice, especially one based out of the home, will fail if the attorney's personality isn't up to the task.

"It's nice being your own boss, but you have to realize what kind of boss you're going to be," said Richards. "Some people might be laissez-faire to themselves, and their practice is going to fail because they don't discipline themselves. There are other people who just drive themselves mercilessly, and there's no real break or way to modulate that."

"There will be things about your personality that will come out that you didn't realize or you realized and they didn't matter, and now they matter."



ANSWERS

(Continued from Page 3)

- 1 (c) A survey by the Investment Company Institute, a fund industry organization, found 43 percent of U.S. households owned mutual funds in 2009, down from 45 percent a year earlier. Those households represent some 90 million individual fund shareholders.
- 2 (d) The main law is the Investment Company Act of 1940, although mutual funds also are subject to the Securities Act of 1933 and the Securities and Exchange Act of 1934.
- 3 (c) The Investment Company Institute counted 7,677 funds in February, holding nearly \$11 trillion. Two common types are stock funds, numbering about 4,900; and taxable bond funds, with more than 1,800.
- 4 (b) A fund's expense ratio covers the fund company's costs before distributing earnings to investors. This amount can have a much bigger impact than any upfront sales costs — also known as loads, or commissions — since expenses can eat into returns for years to come.
- 5 (b) The turnover ratio measures the percentage of a fund's holdings that have been replaced over the past year. If the manager makes smart trades, a higher ratio can boost short-term returns. But a fund with high turnover increases fund trading costs, and can boost an investor's tax bill.
- 6 (a) True. Traditional open-end mutual funds are structured so that they can add investors and assets. Far less common are closed-end funds, where a fund company decides up front how many fund shares will be issued, limiting the number of investors. Those initial investors can later trade shares to others.
- 7 (a) False. While it's true that in the long run stocks generally outperform bonds, there are times where the opposite is true. As we've seen during the recession, the stock market can post dramatic losses while bond investors are generally protected. For example, over the last decade, the Standard & Poor's 500 stock index lost an average 0.95 percent per year. Meanwhile, a broad taxable bond index, the Barclays Capital Aggregate, returned a positive 6.3 percent per year.
- 8 (b) False. Regulations limit how much mutual funds can borrow to invest in derivatives, such as futures and options. But, depending on the guidelines in its prospectus, a fund can adopt some of the same strategies that hedge funds use, including short-selling.
- 9 (b) True. These funds generally employ the same strategies as many hedge funds to smooth out returns in good times and bad. But you can still lose money, even if you'll fare better than most investors in a downturn. The same goes for stable value funds.
- 10 (c) A Morningstar study found a majority of funds did not count managers among their shareholders. For example, 59 percent of foreign stock funds had no manager ownership in the fund. The figure was 65 percent for taxable-bond funds, 70 percent for balanced funds owning stocks and bonds, and 78 percent for municipal bond funds. The exception was U.S. stock funds, where just 46 percent of funds had no manager ownership.

~ MARK JEWELL (AP)

SCORING SYSTEM

0-3: It's time to take Mutual Funds 101.

4-5: You're progressing, but how about picking up a few mutual fund books or checking out some Web sites?

6-7: Pretty good, but your knowledge gaps could put you at risk of getting into the wrong fund.

8-9: Very good, your fund acumen is admirable.

10: Perfect! You have a solid foundation to build on.

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