TD Ameritrade

Risks of Investing in Funds

Before investing in mutual funds, exchange-traded funds, or closed-end funds, carefully consider the investment objectives, risks, charges, and expenses. A prospectus, obtained by calling 800-669-3900, contains this and other important information about an investment company. Please read the prospectus carefully before investing.

Risks of Alternative Investment Funds

Please note that alternative investment strategies are subject to greater volatility than investments in traditional securities. Investments may include derivative instruments, including options, futures, swaps, structured securities, and other derivative instruments that may involve a high degree of financial risk. They may also include investments in foreign securities, which may be more volatile than investments in U.S. securities and will be subject to currency and political risks.

For alternative mutual funds, risks may also include the following:

- Illiquidity of underlying investment assets
- Complexity of strategies that are difficult to understand
- Short track records and wide ranges of performance, even in the same strategy or asset category
- Potential investor misperception of safety of investing in a public mutual fund
- Possible inexperience in adhering to Investment Company Act requirements
- Interval funds may have limited liquidity and limits on redemptions

Investing in alternative investments in general, including alternative funds, is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high financial risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative investment practices
- Valuation of underlying illiquid assets
- Potential delays in tax reporting
- Risks associated with the operations, personnel, and processes of the manager
- Investment allocation practices
- Conflicts of interests, compliance policies and procedures, and governance matters
- Numerous and significant strategy-specific risks

Learn more

Risks of Bond Funds

Investments in bond funds are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Bonds and bond funds will typically decrease in value as interest rates rise.

Risks of High-Yield Bonds

Bonds with a credit rating below investment grade generally have higher coupon yields and additional risks. One risk is the higher possibility of default, where the company would not be able to continue to make interest payments or return an investor's principal (capital investment) when a bond matures. **Learn more**

Risks of Bond Funds vs. Individual Bonds

Bond funds give an investor the benefits of diversification and professional money management; but they differ from buying an individual bond. An individual bond has a maturity date and the holder (barring default of the issuer) would receive his or her investment capital back upon maturity. Bond funds do not have a maturity date. The portfolio manager of an actively managed bond fund would most likely sell a bond prior to its maturity date to reinvest in other bonds or to raise cash to meet redemptions by fund shareholders. If an advisor needs to raise an unusual amount of cash, the bonds may need to be sold before the advisor wants to sell them and at prices lower than the advisor wishes to receive for them. In this case the overall value of the fund share price (net asset value) would be lower and result in a possible capital loss upon shareholders' redemption. **Learn more**

Risks of Commodity Funds

Commodity funds may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity. Commodity funds may be subject to greater volatility than traditional funds and may not be suitable for all investors. Unique risk factors of a commodity fund may include, but are not limited to, the fund's use of aggressive investment techniques such as derivatives, options, forward contracts, correlation or inverse correlation, market price variance risk, and leverage.

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Risks of Currency Funds

The value of the shares of a currency fund relates directly to the value of the foreign currency held by the particular product. This creates a concentration risk associated with fluctuations in the price of the applicable foreign currency. Unique risk factors of a foreign currency include national debt levels and trade deficits, domestic and foreign inflation rates, domestic and foreign interest rates, investment and trading activities of institutions, and global or regional political, economic, or financial events and situations. Currency funds may not be suitable for all investors. For a more complete discussion of risk factors applicable to each currency fund, carefully read the fund prospectus. Many currency ETFs are not investment companies registered under the Investment Company Act of 1940.

Risks of Floating Rate Loan Funds

These funds invest in loans, where banks have lent money to a company and then the loan is traded between parties. The company taking out the loan pays the loan holder interest, and at maturity (barring default) the loan holder receives back the principal amount of the loan. Companies that enter into these loans are charged higher rates of interest because they usually have a larger-than-average amount of debt (for their industry) which makes them a highly leveraged company with additional credit risk. The loan holder receives higher interest payments from the borrower company because of the added risk of that company not being able to meet future interest payments and or defaulting on the loan. The term "floating" is used because the rates of the loans held by the fund reset, usually every 30, 60, or 90 days, with rates related to a reference rate, such as the London Interbank Offered Rate (LIBOR). Where corporate bonds trade in an organized market, Floating Rate Loan trading is largely unregulated. An investor should consider the added credit, liquidity, and valuation risk before making this type of investment. **Learn more**

Risks of Structured Retail Products

Some funds may invest in structured securities that generate income. The fund's prospectus and Statement of Additional Information would detail a fund's ability to invest in these securities. Generally, structured securities are considered unsecured debt where payments are generally linked to the value of other underlying assets or an index. Some allow for all or part of your investment to be guaranteed if held to maturity or if they are called (redeemed) by the issuer. However, structured securities can have significant drawbacks which include credit risk, market risk, lack of liquidity, and higher fees. **Learn more** about Structured Retail Products.

Risks of the Unique Aspects of Leveraged Funds

Leveraged funds seek to deliver multiples of the performance of a benchmark. Leveraged funds entail unique risks, including but not limited to: use of leverage; aggressive and complex investment techniques; and use of derivatives. Leveraged funds seek results over periods as short as a single day. Results of this strategy can be affected substantially by compounding. Returns over longer periods will likely differ in amount and even direction from the benchmark for the same period of time. **Learn more**

Leveraged and Inverse Funds—Special Considerations to Understand

What is a leveraged fund?

As the name implies, these funds seek to provide leveraged returns based on the performance of a particular benchmark. It's important to note that these funds seek to provide these leveraged returns on a daily basis. Due to the impact of what is known as daily compounding, investors should not expect the promised daily leverage of these returns to persist over periods longer than a day. This is especially true if the leveraged fund is tracking a very volatile underlying index. Leveraged funds seek daily returns that are generally 3x, 2x, or inverse leverage -2x, or -3x of the underlying index performance. Leveraged funds generate their leverage through the use of derivative positions. Because derivatives are taxed differently from equity or fixed-income securities, investors should be aware that these funds may not be managed for tax efficiencies that investors may expect from some fund products. **Learn more**

What is an inverse fund?

These funds are related to leveraged funds in that they seek to provide an opposite or inverse return on a particular benchmark. As with leveraged funds, this inverse return is provided on a daily basis, and investors should not expect the promised daily leverage of these returns to persist over periods longer than a day. Inverse funds generate their returns through the use of derivative positions. Because derivatives are taxed differently from equity or fixed-income securities, investors should be aware that these funds may not be managed for tax efficiencies that investors may expect from some fund products. **Learn more**

Inverse and leveraged funds are not suitable for all investors. They should only be utilized by investors who understand the risks associated with the use of leverage, the consequences of seeking daily leveraged investment results, and the risks of shorting, and who intend to actively monitor and manage their investments.

Leveraged and inverse ETFs entail unique risks, including but not limited to: use of leverage; aggressive and complex investment techniques; and use of derivatives. Leveraged ETFs seek to deliver multiples of the performance of a benchmark. Inverse ETFs seek to deliver the opposite of the performance of a benchmark. Both seek results over periods as short as a single day. Results of both strategies can be affected substantially by compounding. Returns over longer periods will likely differ in amount and even direction. These products require active monitoring and management, as frequently as daily. They are not suitable for all investors.

Risks of Closed-End Funds—The value of any closed-end fund will fluctuate with the value of the underlying securities and supply and demand in the secondary market. Until the original listing of a closed-end fund on an exchange, no closed-end fund's shares will have a history of public trading. Closed-end funds may trade at a premium or discount to their net asset value.

Risks of Core Equity Funds—Investing in equities (stocks) has principal risks associated with changes in company valuations (total worth) and related stock market performance.

Risks of Core Bond Funds—Investing in bonds has principal risks associated with changes in interest rates and the risk of default, when an issuer will be unable to make income or principal payments.

Risks of Growth Equity Funds—Investing in equities (stocks) has principal risks associated with changes in company valuations (total worth) and related stock market performance.

Risks of Value Equity Funds—Investing in equities (stocks) has principal risks associated with changes in company valuations (total worth) and related stock market performance.

Risks of Foreign Equity Funds—Investments in these funds involve special risks, including currency fluctuations and political and economic instability.

Risks of Taxable Fixed-Income Funds—Investing in bonds has principal risks associated with changes in interest rates and the risk of default, when an issuer will be unable to make income or principal payments.

Risks of Tax-Free Fixed-Income Funds—Investing in bonds has principal risks associated with changes in interest rates and the risk of default, when an issuer will be unable to make income or principal payments.

Risks of World Bond Funds—Investments in these funds involve special risks, including currency fluctuations and political and economic instability. Investing in bonds has principal risks associated with changes in interest rates and the risk of default, when an issuer will be unable to make income or principal payments.

Risks of Country and Regional Funds—Funds of this nature may experience increased volatility and pose unique political and currency risks.

Risks of Inflation-Aware Investment Funds—Investing in bonds has principal risks associated with changes in interest rates and the risk of default, when an issuer will be unable to make income or principal payments. Investing in equities (stocks) has principal risks associated with changes in company valuations (total worth) and related stock market performance.

Risks of Income-Oriented Investment Funds—Investing in bonds has principal risks associated with changes in interest rates and the risk of default, when an issuer will be unable to make income or principal payments.

Risks of All-In One Solution Funds—Investing in bonds has principal risks associated with changes in interest rates and the risk of default, when an issuer will be unable to make income or principal payments. Investing in equities (stocks) has principal risks associated with changes in company valuations (total worth) and related stock market performance.

ETFs can entail risks similar to direct stock ownership, including market, sector, or industry risks. Some ETFs may involve international risk, currency risk, commodity risk, and interest rate risk. Trading prices may not reflect the net asset value of the underlying securities. Commission fees typically apply.