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ManningGee Investments
Sustaining Wealth and Trust

What is a Fund - And Why Most People Use Them. A Plain-English Explanation

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Introduction

Last month, in Month 4 of our financial education series, we looked at what investing actually is and why investing is often about giving your money the chance to grow over time.

This month, we move one step deeper and look at one of the core building blocks of investing: funds.

Next month, we will tackle one of the biggest debates in investing—active vs passive investing.

But first, we need to understand what most investors actually own.

Because one of the biggest surprises for people starting their investment journey is this:

Most people do not buy individual shares.

They do not spend their evenings researching companies, watching financial news, or trying to predict what the stock market will do next.

Instead, most investors use something called an investment fund.

And for many people, that is often the smarter place to start.

What Is a Fund

At its simplest, a fund is a collection of money from lots of investors, pooled together and invested across a range of assets.

Depending on the type of fund, it might hold:

- Shares (also called equities) — ownership in companies such as Apple Inc. or NVIDIA Corporation
- Bonds — effectively loans made to companies or governments
- Alternatives — this could include property companies, infrastructure businesses, or other specialist assets

The key point is this:

Rather than owning one investment, you own a small piece of many investments.

A simple way to think about it:

Growing your own food can be rewarding, but it takes time, knowledge, and patience. A supermarket gives you access to thousands of choices in one place.

A fund works in a similar way.

It gives you broad access to markets without needing to build everything yourself.

Why Do Most People Use Funds?

The biggest reason is diversification.

Imagine putting all your money into one company.

Your future then becomes heavily tied to the success or failure of that one business.

And the reality is, picking future winners is incredibly difficult.

For every company like NVIDIA Corporation, there have been hundreds—or even thousands—of businesses that failed, were acquired, or simply never delivered.

In fact, research by Hendrik Bessembinder found that just 4% of stocks accounted for all net wealth creation in the US stock market between 1926 and 2019.

That is a remarkable statistic.

It tells us something important:

Most wealth creation comes from a very small number of companies.

The challenge is knowing which ones in advance.

A fund helps solve that problem by spreading your money across dozens—or sometimes thousands—of investments.

Instead of relying on:

- One company
- One country
- One sector
- One idea

You spread risk across many opportunities.

Professional Management

Many funds are managed by experienced investment professionals.

Their role may include:

- Researching markets
- Reviewing companies
- Monitoring risks
- Adjusting portfolios when needed

This does not guarantee better returns.

But it does mean someone is overseeing the investment process.

It is also worth understanding that professional management comes in different forms.

Some funds are largely mechanical, simply following an index.

Others are far more hands-on, with managers actively making decisions about:

- Which countries to invest in
- Which sectors to avoid
- Which companies to own

This becomes important when we discuss active vs passive investing next month.

Why Picking Individual Shares Is Not Required

A lot of people think investing means finding “the next big stock.”

Reality is usually very different.

Even professional investors struggle to consistently pick winners.

Some of the very best investors may only be right 65% to 70% of the time—but that can still be enough to outperform over time.

Of course, headlines often focus on success stories.

We hear about companies that multiply in value.

What we hear less about are the businesses that:

- Underperform
- Lose relevance
- Never recover
- Disappear altogether

A fund removes much of that pressure.

It helps build a portfolio designed to survive different market conditions, rather than relying on one big guess.

Active vs Passive Investing

We will cover this properly next month, but because there is so much discussion around it, it is worth introducing the basics.

Passive Investing

Passive funds aim to track a market index such as:

- FTSE 100
- S&P 500

The goal is simple:

Match the market, not beat it.

Benefits often include:

- Lower costs
- Transparency
- Broad diversification

Active Investing

Active funds use professional fund managers who try to outperform the market.

Potential benefits include:

- The opportunity to outperform
- Flexibility during changing markets
- Access to specialist areas

Challenges include:

- Higher costs
- No guarantee of better returns

It is also important to understand that active management can mean different things. Sometimes it means changing the mix of investments across regions or asset classes. Other times it means managers selecting individual shares.

Bringing It Together

Funds are one of the simplest and most effective ways to access global markets.

In reality, many portfolios hold multiple funds, helping diversify across regions and assets.

For example, a portfolio might hold:

- 20% United States
- 10% United Kingdom
- 10% Emerging Markets
- 10% Europe
- 20% Global Developed Markets
- 30% Bonds and Alternatives

It is this blend that creates diversification.

But the right solution will always depend on the individual.

Some people prefer:

- Low-cost passive investing
- Strategic active oversight
- Sustainable investing
- Income-focused retirement portfolios

The right answer depends on:

- Your goals
- Your time horizon
- Your attitude to risk
- How involved you want to be

At Manning Gee Investments, we believe investments should support your wider financial plan—not drive it. That philosophy sits at the heart of how the firm approaches clients with £100,000+ of investable assets and a strong focus on clarity, low-cost solutions, and long-term planning.

Final Thought

This second part of the investment education section is designed to make investing feel less intimidating.

The goal is not simply to invest.

The goal is to understand what you own, why you own it, and how it fits into your wider financial life.

Because investing without a plan can feel exciting.

Investing with a plan often feels more sustainable.

Frequently Asked Questions

Do I need lots of money to invest in a fund?

No. Many funds can be accessed with relatively modest amounts.

Are funds safer than individual shares?

No investment is risk-free, but funds usually spread risk more widely.

Should I choose active or passive?

There is no universal answer. It depends on your goals, costs, and preferences.)

Can I lose money in a fund?

Yes. Investments can rise and fall in value, and you may get back less than you invest.

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Anyone considering a financial product or service should seek professional advice or carry out their own research before making any decisions.

Investments can fall as well as rise and returns are not guaranteed. You may get back less than you originally invested.