

When Selecting Mutual Funds, Pay Attention To Management Style

Recently we had a conversation with one of our clients, who wanted to suggest a specific fund to his Granddaughter. He had chosen this fund, because of its returns. He pointed out that nearly every year out of the last seven, it had out performed most of the other funds. We had to agree, and admitted the we would not be surprised if it continued to, but we had our reservations.

We knew that this was going to be the Granddaughter's first investing experience, and we knew this investor's style. He was a very experienced investor, who looks for value, growth potential, and always buys quality. Experience has taught him that market timing, flipping shares and sector rotation, eventually catch up to you.

Past Performance Is One Thing



But you are interested in future performance, and past performance is only one indicator.

We did not feel that it was a good choice for his Granddaughter's first investment. The fund in question uses a sector rotation style, and it turns its shares over a lot. When we pointed this out, he had to agree, as he would never employ that style himself, and certainly he would not want his Granddaughter's first experience to be in a fund managed that way.

We may live to regret the above conversation, now that we talked the client out of it, that fund is bound to continue to show superior results.

The above example demonstrates how easy it is for even the most experienced investors to forget to pay attention to management style. When you are choosing funds, remember to check out the manager's style before you make your selection. If the manager is not using a style that you would use yourself, ask yourself, why is it okay for them, but not

for me. After all, it is still your money, do not let someone gamble with it.

Management styles can be found on our fund watch reports. For equity funds, there are two columns to watch. The first is, Exp. T/O, or expected turnover. A manager who trades a lot will have a medium (M) or high (H) expected turnover. Ones who concentrate on buying and holding quality shares, are more likely to have a low (L) expected turnover.

The other column to watch is the Comments column. We place symbols in this column to indicate the type of management style. The following is a list of the management styles and their symbols.

- T, Top down: The managers analyze the economy before selecting shares, then they look for shares in the sectors or regions that they expected to perform the best.
- B, Bottom up: The managers look for stocks that they like, paying little attention to economic forecasts, regions or sectors. They believe that ultimately it is the company that counts, not the economy.
- V, Value investors: The managers look for stocks that are under valued.
- G, Growth investors: The managers look for companies with good growth potential.
- Se, Sector rotation: The managers try to determine what sectors will perform the best, then they look for companies in those sectors.
- Bl, Blend: The managers use a blend of value, growth and sector rotation.