

How to Check Up On Your Mutual Fund; New Web Tools Help Investors Take Advantage Of Flood of Data Now Required by Regulators  
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Abstract (Document Summary)

Managerial experience makes a difference in fund performance. The longer a manager's tenure with a fund, the better the portfolio's performance, says Phil Edwards, managing director at Standard & Poor's investment services group. Research by finance professors at Pace University, which they expect to publish in an academic journal, suggests investors should look at a manager's education, too. Managers that have graduate degrees from prestigious schools tend to post better returns, says Matthew Morey, a study co-author.

Investors who make use of the information can learn a lot about their fund's strategy. If a value manager starts buying expensive tech stocks, for example, investors don't have to wait six months to find out that he isn't sticking to the fund's objective. Staying abreast of a fund's current holdings helps investors get an accurate picture of their overall asset allocation. Morningstar's "ownership zone" tool, launched early this year, helps investors make the most of portfolio- holding data. The tool shows how a fund's holdings are scattered across various styles, say, large-cap growth or midcap value. While Morningstar categorizes Weitz Value as a large-cap value fund, for example, the ownership zone shows that it invests some assets in mid cap and growth stocks. This greater detail can give investors a better sense of a fund manager's strategy and help them to understand a fund's performance.

Full Text (1452 words)

Copyright (c) 2005, Dow Jones & Company Inc. Reproduced with permission of copyright owner. Further reproduction or distribution is prohibited without permission. PRODDDED BY regulators, the nation's mutual-fund companies have recently begun disclosing a broad range of information, including how much managers personally have invested in their funds and plain- English descriptions of fund expenses.

A number of online tools have sprung up to help investors take advantage of the funds' increased disclosure and help them productively comb through the wealth of data. The National Association of Securities Dealers last month launched free Web-based tools that make it easy to compare fund expenses and tally the total cost of holding funds over long periods. Interested in knowing all the index funds and exchange-traded funds that track the Russell 2000 index and charge expenses under 1%? Check out [indexuniverse.com](http://indexuniverse.com), a free site operated by the publisher of the Journal of Indexes trade publication.

Investors ready to put a large sum in a single fund, for example, can readily find out on the NASD Web site which funds offer commission discounts for large investments. Citigroup Inc.'s Smith Barney unit, for instance, offers such discounts with a \$25,000 investment in its Aggressive Growth Fund.

The stepped up disclosure comes in response to new rules regulators put into place in the wake of the mutual-fund scandals. Starting in 2003, regulators charged a number of the biggest fund companies, including Janus Capital Group Inc. and Invesco Funds Group Inc., with allowing some investors to make unorthodox trades that hurt the funds' long-term shareholders. Around the same time, Wall Street firms were being charged with withholding certain commission discounts from mutual-fund investors who were eligible for the price breaks.

Deadlines to comply with the new rules are staggered over several years beginning in 2004, and many fund companies are just now beginning to provide much of the additional information required. The problem is, the information is contained in multiple lengthy documents that fund companies file with regulators. The new online tools are aimed at making analyzing these data less daunting for individual investors.

Mutual funds are the most common way for investors to own stocks. In 2004, 92 million individuals owned mutual funds, which accounted for nearly 20% of U.S. households' financial assets, according to the Investment Company Institute, the fund industry's trade group. Mutual- fund assets grew 5% this year to nearly \$8.5 trillion at the end of October.

With so much information about funds available, it's possible to drown in all the data. But fund investors shouldn't throw up their hands and rely on simple ratings to select a fund, analysts say. By focusing on a few key criteria and employing some new user-friendly online tools, investors can make a more informed decision.

Securities and Exchange Commission rules that went into effect last year require funds to spell out more information on fees and expenses. Shareholder reports starting last year

must translate expenses into plain English, showing the dollar cost of a \$1,000 investment in the fund. Funds must also describe who might be eligible for special discounts on mutual-fund sales commissions.

All this comes as many funds' expenses are headed lower. Some funds lowered fees as part of settlements with regulators, while others have cut expenses in the face of industry competition and the rise of low-cost exchange-traded funds.

The two online tools launched by the National Association of Securities Dealers, which regulates the brokerage industry, help investors size up a fund's total costs. A mutual-fund expense analyzer shows the total dollar cost of holding a specific fund for a certain period, breaking down sales charges and redemption fees. A breakpoint search tool shows how much an individual must invest in a certain fund to receive any discounts on sales charges. The site is [nasd.com](http://nasd.com).

Investors who want an in-depth look at the total costs of owning a fund can turn to [personalfund.com](http://personalfund.com), started by an independent software entrepreneur. The site helps tally the tax consequences of holding a fund and an individual investor's share of fund transaction, management and distribution costs. An investor in the top tax bracket with \$10,000 in the Vanguard 500 Index fund, for example, would have paid \$53 in costs last year, including \$18 for fund management and distribution, \$4 for transaction costs, and \$30 in taxes, according to the site's estimates.

For investors considering selling one fund and buying another, the site will estimate the number of years it would take to break even given the cost of the switch and what return the new fund would need to produce in order to justify the trade. Investors can look at a few funds for free, but an ongoing subscription to the site costs \$19.95 per month or \$200 per year.

This year, investors are learning all sorts of new details about the people managing their money. Funds must describe how they determine managers' compensation, how much managers personally have invested in their funds and other portfolios run by the same manager. Funds that previously hid individual managers behind a "management team" moniker must now name the five people most responsible for running the fund.

A manager change can have a big impact. Last month, when a team from Davis Selected Advisers was tapped to run the Clipper Fund, the fund said that fees would drop substantially. The new managers also are expected to hold less cash and more growth-oriented stocks, says Kunal Kapoor, director of fund analysis at Morningstar Inc.

Manager compensation should be based more on long-term performance than short-term returns or asset growth, analysts say. And managers who invest large amounts in their own funds tend to run lower-cost, more tax-efficient portfolios, says Russ Kinnel, director of fund research at Morningstar.

When looking at other portfolios run by the manager, investors should focus on total assets in funds that use the same strategy. Often, a manager will run these separate funds as if they're all one large portfolio, Mr. Kinnel says. Even a small fund could have large trading costs if the manager runs other larger portfolios using the same strategy.

And managerial experience makes a difference in fund performance. The longer a manager's tenure with a fund, the better the portfolio's performance, says Phil Edwards, managing director at Standard & Poor's investment services group. Research by finance professors at Pace University, which they expect to publish in an academic journal, suggests investors should look at a manager's education, too. Managers that have graduate degrees from prestigious schools tend to post better returns, says Matthew Morey, a study co-author.

Morningstar's Web site offers easy access to basic information on a manager's background and a free screener that helps pinpoint funds with the most experienced managers. Its "stewardship grades," available only to paying subscribers, summarize information on managers' compensation and their personal investment in funds they oversee.

Starting last year, the SEC required funds to report their holdings to shareholders every three months instead of just twice a year.

Investors who make use of the information can learn a lot about their fund's strategy. If a value manager starts buying expensive tech stocks, for example, investors don't have to wait six months to find out that he isn't sticking to the fund's objective. Staying abreast of a fund's current holdings helps investors get an accurate picture of their overall asset allocation. Morningstar's "ownership zone" tool, launched early this year, helps investors make the most of portfolio-holding data. The tool shows how a fund's holdings are scattered across various styles, say, large-cap growth or midcap value. While Morningstar categorizes Weitz Value as a large-cap value fund, for example, the ownership zone shows that it invests some assets in mid cap and growth stocks. This greater detail can give investors a better sense of a fund manager's strategy and help them to understand a fund's performance.

Shareholders should also look for substantial portfolio changes from one quarterly report to the next. Dramatic shifts not only suggest the manager could be straying from the fund's strategy, but that he may also be racking up lots of trading costs, which can eat in to the fund's returns.

Betterinvesting.org, sponsored by BetterInvesting, an organization of investment clubs, can help investors find quarterly portfolio shifts. Using the site's "trend report," shareholders can easily see how a fund's sector weightings and overall allocations to stocks, bonds and cash have changed each quarter. Individuals can get free access to the site for 90 days or unlimited access for \$50 per year.

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## Investment Tools

Mutual-fund companies must now provide a wealth of new information. Among recent required disclosures:

- Fund expenses must be translated into plain English.
- Holdings must be reported quarterly, not just twice a year.
- Funds must reveal how management compensation is determined, and if managers have personal stakes in their funds.