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## IN THE New Superstar FUNDS

Mad at your mutual fund portfolio? After five years of uneven performance—or worse—at most large funds, you're not alone. We've identified 10 superb long-term winners to buy now—and 28 laggards to consider kissing off.

**BY RICHARD TEN WOLDE WITH LAUREN YOUNG**

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## Take a look at their photos. They don't look much like superheroes. They can't bend the Nasdaq

to their will or outrun a speeding secondary offering. But each of the managers we've rounded up for this issue can do one thing extraordinarily well—his job. In fact, each of them has delivered heroic performance over the span of one of the most difficult markets ever.

And that's a lot more than most other funds have delivered. There's not a money manager out there who hasn't had a chance to excel at some point during the past five years. Growth managers had their opening in 1999, in the tech boom, and value managers had a golden opportunity when beaten-down stocks such as J.C. Penney and Fortune Brands ran up last year.

Yet all too many mutual funds have failed to perform well anywhere over that time—and this includes some of the biggest, best-known names in the business. Check out MFS Massachusetts Investors Trust. With more than \$10 billion under management, it has the dubious distinction of being the nation's oldest mutual fund and one of the largest offerings in its peer group. But it hasn't exactly lived up to its legend, underperforming the S&P 500 in seven of the past 10 years.

Or how about Fidelity Advisor Growth Opportunities? With nearly \$9 billion in its coffers, this fund is almost nine times the size of its average rival. But it has hardly delivered the "growth" promised by its name. In fact, it has lost an annualized 11 percent a year since 1999, more than 10 percentage points behind the S&P 500.

To this we say, enough already! Now is the time to fire the fund managers who've been letting you down and replace them with people who can *actually make you some money*.

Think of it as an early spring cleaning for your portfolio.

Over the next few pages, we'll introduce you to a group of fund managers we call the New Superstars. They're not particularly flashy and they don't always whip the market, but they do provide what few of their peers can: consistent, reliable outperformance. Because the decision to sell a fund is seldom easy ("What if it finally turns around this year?"), we've also singled out some of the most disappointing performers in mutual funds today—offerings you really ought to consider dumping to make way for our New Superstar picks.

How did we find our winners? We began with Morningstar's database of 3,324 diversified stock funds, eliminating those managers who failed to

beat at least three-quarters of their rivals consistently. (For large-cap and midcap funds, we demanded a five-year track record; for small-cap funds we needed to see only three years, as these funds tend to do best when they are newer and have fewer assets under management. All figures are as of Dec. 31, 2001.)

Our focus then turned to the risk scores of the remaining funds. Because we were looking for dependability, we tossed out managers who took more risks than their average rival. In the end, with 108 funds on our short list, we looked at a statistical measure of each manager's talent. It's called alpha, and it gauges the manager's ability to consistently beat his benchmark without taking unnecessary risks. We also considered management experience and tax-efficiency when making our final selections.

And the managers you ought to think about jettisoning? Identifying them was easy: They simply had to underperform their peers during the past one-, three- and five-year periods; take larger-than-average risks; charge high expenses; and offer poor tax-efficiency.

The 28 laggards we cite here should not be mistaken for an exhaustive list of all the funds to consider unloading. These are among the biggest ones that met our underachiever criteria with the worst records. The complete list is available at [www.smartmoney.com/mag](http://www.smartmoney.com/mag).

[The following is excerpted.]

### LARGE-CAP FUNDS

**Richard Freeman** gives his rival managers nightmares. The manager of **Smith Barney Aggressive Growth** (800-451-2010) is like the killer in a B horror movie, moving at an eerily slow pace but always managing to track down his quarry. His fund has about 40 core holdings at any one time, and he moves in and out of stocks at a snail's pace. "We don't feel the necessity to sell something just because everyone else is," Freeman says. "If earnings continue to come through, the stock will come back."

Works for us. His fund, on average, has gained nearly 21 percent a year for the past three years, the second-best in Morningstar's large-cap growth category. It's also a top performer—and one of the most tax-efficient—when you look at five-year and 10-year performance.

This alone sets Freeman apart from his rivals. But so does his approach. Rather than buying

# Superstars AND BLACK HOLES

Our picks for the mutual funds to buy, sell and keep a wary eye on in the 10 major style categories.

| Fund Name                              | Ticker | 1-Yr. Return | 3-Yr. Load-Adj. Return | 5-Yr. Load-Adj. Return | Load  | Comment   |
|--|--------|--------------|------------------------|------------------------|-------|---|
| <b>LARGE-CAP GROWTH</b>                |        | -23.63%      | -3.71%                 | 7.90%                  |       |   |
| Smith Barney Aggr. Growth A            | SHRAX  | -5.00        | 20.79                  | 25.07                  | 5.00% | <b>BUY:</b> High returns, tax efficiency, experienced manager—what's not to like?                 |
| AIM Weingarten A                       | WEINX  | -34.10       | -12.54                 | 2.31                   | 5.50  | <b>SELL:</b> Aggressive earnings momentum strategy has backfired.                                 |
| AXP Growth A                           | INIDX  | -31.30       | -9.89                  | 1.61                   | 5.75  | <b>SELL:</b> Early 1990s winning streak is long over, thanks to racy tech bets.                   |
| Fidelity Aggressive Growth             | FDEGX  | -47.27       | -7.95                  | 5.95                   | 0.00  | <b>SELL:</b> Heavy sector concentration and high volatility. Try Dividend Growth instead.         |
| Invesco Growth Inv.                    | FLRFX  | -49.07       | -18.74                 | -0.66                  | 0.00  | <b>WATCH:</b> Too small to make official "sell" list, but pitiful returns made our eyes pop.      |
| Vanguard U.S. Growth                   | VWUSX  | -31.70       | -12.64                 | 3.28                   | 0.00  | <b>WATCH:</b> New manager joined in June and is off to decent start.                              |
| <b>LARGE-CAP BLEND</b>                 |        | -13.68       | -1.46                  | 8.55                   |       |   |
| Thompson Plumb Growth                  | THPGX  | 19.13        | 16.81                  | 20.09                  | 0.00  | <b>BUY:</b> Management isn't afraid to load up on sectors where it's finding good values.         |
| AIM Charter A                          | CHTRX  | -23.09       | -6.02                  | 5.60                   | 5.50  | <b>SELL:</b> This fund has delivered bottom-quartile returns with above-average volatility.       |
| AXP Blue Chip Advantage A              | IBLUX  | -17.03       | -5.90                  | 5.25                   | 5.75  | <b>WATCH:</b> New manager has vowed to abandon fundamental analysis.                              |
| Fidelity Adv. Growth Opp. T            | FAGOX  | -15.14       | -11.40                 | 2.08                   | 3.50  | <b>SELL:</b> Performance still shaky despite seasoned manager's attempt to turn it around.        |
| MFS Massachusetts Inv. A               | MITTX  | -16.24       | -5.59                  | 6.38                   | 5.75  | <b>SELL:</b> The nation's oldest mutual fund is ready for retirement with index-like returns.     |
| <b>LARGE-CAP VALUE</b>                 |        | -5.37        | 1.68                   | 8.49                   |       |   |
| Clipper                                | CFIMX  | 10.26        | 14.07                  | 18.21                  | 0.00  | <b>BUY:</b> This concentrated portfolio continues to deliver strong and steady returns.           |
| Morgan Stanley Dividend Gr. Sec. B     | DIVBX  | -9.18        | -2.34                  | 6.82                   | 5.00  | <b>SELL:</b> No dividends, no growth and tricky embedded capital gains.                           |
| Putnam Fund for Gr. & Inc. A           | PGRWX  | -6.37        | -1.20                  | 6.64                   | 5.75  | <b>SELL:</b> Middling scores still make this massive fund worth skipping.                         |
| Safeco Equity                          | SAFQX  | -9.72        | -4.20                  | 6.41                   | 0.00  | <b>SELL:</b> Safeco says this is a "core equity" fund, not a value fund. Nice try.                |
| <b>MIDCAP GROWTH</b>                   |        | -21.28       | 4.48                   | 8.10                   |       |   |
| Calamos Growth A                       | CVGRX  | -7.68        | 25.53                  | 25.81                  | 4.75  | <b>BUY:</b> The fourth-best performer of all funds over the past five years.                      |
| American Cent. Giftrust Inv.           | TWGTX  | -35.42       | 0.35                   | -2.80                  | 0.00  | <b>WATCH:</b> The gift that stopped giving long ago, but a tough one to get out of.               |
| Janus Enterprise                       | JAENX  | -39.93       | -2.52                  | 6.54                   | 0.00  | <b>WATCH:</b> Former analyst now at helm. Janus Growth & Income a good alternative.               |
| Putnam OTC & Emerging Growth A         | POEGX  | -46.12       | -17.50                 | -7.24                  | 5.75  | <b>SELL:</b> Its 35 percent tech stake is nearly double the S&P's.                                |
| <b>MIDCAP BLEND</b>                    |        | -4.96        | 5.03                   | 9.33                   |       |   |
| Mairs & Power Growth                   | MPGFX  | 6.48         | 13.01                  | 15.22                  | 0.00  | <b>BUY:</b> Keeps beating rivals while focusing on companies in Minnesota region.                 |
| AXP Progressive A                      | INPRX  | -13.81       | -5.88                  | 0.57                   | 5.75  | <b>WATCH:</b> Progressively worse performance prompted a management change this year.             |
| Evergreen Growth & Income I            | EVVTX  | -14.64       | -2.71                  | 4.93                   | 0.00  | <b>WATCH:</b> May yet bounce back. New manager has steady record on another fund.                 |
| Gintel                                 | GINLX  | -17.45       | -1.55                  | 2.51                   | 0.00  | <b>SELL:</b> Highly concentrated strategy has failed to juice returns.                            |
| <b>MIDCAP VALUE</b>                    |        | 6.40         | 9.77                   | 11.39                  |       |   |
| Hotchkis & Wiley Mid-Cap Value I       | MMVAX  | 15.45        | 24.87                  | 18.28                  | 5.25  | <b>BUY:</b> Holds up well in a bear market and has just one down year in past five.               |
| Evergreen Equity Income I              | EVTRX  | -5.37        | 5.67                   | 8.01                   | 0.00  | <b>WATCH:</b> Evergreen says this high-yielding underperformer is "one step from a bond fund."    |
| Prudential Value B                     | PBQIX  | -3.60        | 6.31                   | 9.60                   | 5.00  | <b>SELL:</b> New multimanager team insists this is really a large-cap value fund.                 |
| <b>SMALL-CAP GROWTH</b>                |        | -9.02        | 8.76                   | 8.64                   |       |   |
| Buffalo Small Cap                      | BUFSX  | 31.18        | 33.21                  | N/A                    | 0.00  | <b>BUY:</b> Shooting out the lights with prescient theme-oriented stock picking.                  |
| Morgan Stanley Develop. Gr. Sec. B     | DGRBX  | -26.81       | 3.33                   | 6.31                   | 5.00  | <b>SELL:</b> Bad bets in tech and health care have infected this fund.                            |
| PBHG Emerging Growth                   | PBEGX  | -32.56       | -9.22                  | -5.79                  | 0.00  | <b>SELL:</b> This dismal performer is crying out for a makeover. Is anyone listening?             |
| Scudder Dynamic Growth B               | KSCBX  | -31.09       | -7.40                  | -1.83                  | 4.00  | <b>SELL:</b> Nine out of 10 peers beat this fund during the past five years.                      |
| <b>SMALL-CAP BLEND</b>                 |        | 8.41         | 11.30                  | 10.61                  |       |   |
| Merrill Lynch Small-Cap Val. A         | MASPX  | 30.64        | 24.06                  | 17.69                  | 5.25  | <b>BUY:</b> Excellent performance, but keep an eye on it. The portfolio is getting big.           |
| Fidelity Small Cap Independence        | FDSCX  | 6.29         | 8.65                   | 8.61                   | 0.00  | <b>WATCH:</b> New manager off to fast start, but Fidelity Small Cap Stock may be a better choice. |
| SSgA Small Cap                         | SVSCX  | -0.92        | 2.36                   | 4.15                   | 0.00  | <b>SELL:</b> Quant fund is bottom-decile performer in past three and five years.                  |
| <b>SMALL-CAP VALUE</b>                 |        | 17.31        | 12.56                  | 11.01                  |       |   |
| Aegis Value                            | AVALX  | 42.66        | 21.46                  | N/A                    | 0.00  | <b>BUY:</b> New and nimble with a deep-value strategy that's delivered sky-high returns.          |
| Prudential Small Company A             | PGOAX  | 16.56        | 4.35                   | 6.22                   | 5.00  | <b>SELL:</b> Prudential is trying to reposition this shaky performer as a blend fund.             |
| <b>INTERNATIONAL</b>                   |        | -21.93       | -2.19                  | 2.06                   |       |   |
| William Blair Intl. Growth N           | WBIGX  | -13.66       | 15.91                  | 13.47                  | 0.00  | <b>BUY:</b> This freewheeling underdog is whipping the competition.                               |
| AXP International A                    | INIFX  | -29.32       | -10.46                 | -3.32                  | 5.75  | <b>SELL:</b> Grab your passport and head for the hills.   |
| Harbor International Growth            | HAIGX  | -38.54       | -18.05                 | -6.78                  | 0.00  | <b>WATCH:</b> Dismal performance led to management change in December 2001.                       |
| Standard & Poor's 500 index            |        | -11.88       | -1.03                  | 10.70                  |       |   |
| Russell 2000 small-cap index           |        | 2.49         | 6.42                   | 7.52                   |       |   |
| MSCI Europe Australasia Far East index |        | -21.44       | -5.05                  | 0.89                   |       |   |

All performance data annualized as of 12/31/01. N/A = not applicable.

DATA: MORNINGSTAR; SMARTMONEY

behemoths, he concentrates on small and midsize companies that he can own for years as they grow into large caps. Some—Intel is one—have been in the fund since the mid-'80s. His average cost per share for that chipmaker, which recently traded at \$35? An amazing 88 cents.

Freeman looks for companies that have sustainable earnings growth, sound balance sheets and experienced managers. He shies away from companies that are trading at more than two times their P/E-to-growth rate. This year Freeman expects a tough market in which investors will have no patience for stocks that stumble. "Own as many companies as you can that can at least meet their earnings estimates," he advises.

While Freeman gives a nod to valuations, the team at the **Clipper Fund** (800-432-2504), our value pick, is obsessed with price, refusing to buy companies that are trading at more than 70 percent of their intrinsic value. They're finicky, holding only 15 to 35 stocks and quite willing to let cash build up until they find attractive buys. Tight portfolios usually lead to more risk, but Clipper is actually less volatile than the broader market and its peers. The team—composed of James Gipson, Bruce Veaco, Michael Sandler and Peter Quinn—has had just one losing year in the past seven: 1999, when it was down 2 percent.

You won't find any tech stocks in this fund—they're too tough to value, says Veaco. At the moment, there aren't any health care names either, though they are looking at drug stocks. Long-term winners Fannie Mae and Freddie Mac still have upside, Veaco insists, because he expects the agencies to take mortgage business from banks and savings-and-loan associations. The managers are also betting that the giant advertising company Interpublic Group will turn around when the ad climate improves.

John Thompson, manager of **Thompson Plumb Growth** (800-999-0887), is also setting his portfolio up for an economic recovery. "We try to rotate

into sectors when they look depressed and then rotate out before they overheat," says Thompson, who looks for reasonably priced growing companies. Lately, he's been stocking up on companies in the ravaged telecom sector, including Qwest Communications. He bought Qwest at the end of last year, after he concluded that Wall Street wasn't giving the company enough credit for its local phone service. "The Street has a tendency to get too bearish on an asset when it's down," he says.

Another one of Thompson's axioms: Potential buys must have steady earnings. It's a rule that drew him to Concord EFS, which clears credit card purchases. When Thompson went to a Concord presentation at an investment conference in early 2000, there were only nine other people in the room. Later that afternoon, Thompson had to squeeze into the same auditorium to hear B2B highflyer Ariba make its pitch. He left after five minutes. "I couldn't understand their business model," he admits. He went on to buy more Concord, which gained 118 percent in the 15 months he owned it. Ariba, on the other hand, has plunged 95 percent since its 2000 peak.

That's not to say he never buys tech. Thompson snapped up some stocks in that sector last year while they were depressed, but has steered clear of it since then. "If I hold tech now," he explains, "and the economy does accelerate, I won't make any money. And if it's not true that the economy is recovering, I lose."

And there have been many, many losers among the big large-cap funds. For our money, the worst are **AXP Growth**, **AIM Charter** and **Morgan Stanley Dividend Growth Securities**. AXP Growth, a large-cap growth portfolio, has a five-year annualized return of just 1.6 percent, worse than 89 percent of its rivals. The Morgan Stanley and AIM funds aren't much better, beating only three out of 10 peers in that time. **SM**

*Additional reporting by Charles Butler, Eleanor Laise and Russell Pearlman*

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