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Thompson Funds' Value Approach Pays Off

FUND TRACK

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Although only 32 years old, fund manager John C. Thompson describes himself as an old-school investor who shuns trends and thinks outside the box.

He's a value manager who likes to buy growth stocks. Unlike many managers, he seldom meets with company executives, because he doesn't want to be emotionally influenced when deciding whether to purchase a stock. "It's better to be detached," according to Mr. Thompson.

Manager of the $180 million **Thompson Plumb Growth** fund, Mr. Thompson appears to be doing something right. Year-to-date, the fund, one of three mutual funds offered by **Thompson Plumb & Associates**, a family-run investment firm based in Madison, Wis., is up 4.8%, placing it in the top 1% among its large-cap blend peers, according to Morningstar Inc. In the past three years, the fund has an annualized return of 21.69%, also placing it in the top 1%.

"We like to buy companies when they're having a bit of a hard time and earnings are down, anticipating that their fundamentals will improve and they will gain," Mr. Thompson said. The "growth" in his fund's name refers more to the fund's goal of capital growth than a focus on stocks for their earnings growth, according to Mr. Thompson.

Among the specifics that he and his father, John W. Thompson, the fund's co-manager, look for in companies are minimum average returns on equity of 15% to 20% annually, and gross profit margins of at least 50%. The fund is usually invested in 50 to 70 stocks; current sector weightings are about 22% financials, 19% technology, 19% services, 14% health, 7% retail, and 7% industrials.

Stocks that have done especially well for the fund year-to-date include **Office Depot** Inc., which doubled after Mr. Thompson first bought it late last year, when it was selling at about $7. "The industry then was facing extreme overcapacity, and the company's earnings were deteriorating," Mr. Thompson said.

"But there's since been lots of bankruptcies and consolidation in the retailing sector, and Office Depot has a new manager who's doing a great job, streamlining costs." The stock has given back some of its gains recently.

Another strong performer for the fund has been **Autozone Inc.**, an auto-parts company that Mr. Thompson first bought about a year and a half ago at $22. At that time, the economy was roaring, but Mr. Thompson noted that the Federal Reserve was raising interest rates at the same time that oil prices were tripling.

"Every time that's happened, we've had a recession," he said. "And since when the economy weakens, people defer buying new cars ... Autozone is a great stock to own," he said of the stock, which has more than doubled.

Looking forward, Mr. Thompson is especially interested in the media sector, including **Viacom Inc.**, **Clear Channel Communications** Inc. and **Interpublic Group** of Cos., the ad and public-relations giant.

"Media is a fantastic part of the stock market over time, because there's a fixed amount of it and advertisers need to get the word out," he said. And though the media industry is experiencing short-term problems with earnings now, that will change in a year or two, he predicted.

Mr. Thompson's favorite media company is Viacom, one of the fund's largest holdings, at 3.9%. "In our opinion, it's the best-positioned media company because it has a huge percentage in areas that generate free cash flow—radio and billboards," without requiring building investment, he said. "And its management team is tops."

Mr. Thompson is bullish on consumer staples, too, including **Coca-Cola Co.**, another large holding, also at 3.9%. Consumption of Coke is growing steadily, as a result of population increases alone, he said. However, Coke's stock has been falling steadily in recent years, largely because of the strength of the dollar, he said.

"But when the Federal Reserve cuts interest rates, the dollar weakens, and that seems to be happening now," he said.

The Thompson Plumb Growth Fund returned 32.15%, 15.76%, 22.46% and 16.44% for the one-year, three-year, five-year and since inception periods ended 6/30/2001, respectively. For complete information, management fees, and expenses, call for a prospectus. Read it carefully before you invest.

Past performance is no guarantee of future results. Yield, return and principal value will vary and shares may be worth more or less when redeemed. Thompson, Plumb & Associates, Inc., advisor to the Growth Fund, has at times voluntarily limited expenses of the Fund as referenced in the prospectus, resulting in higher returns to shareholders.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ metric each month by subtracting the return on a 90-day U.S. Treasury Bill from the fund's load-adjusted return for the same period, and then adjusting this excess return for risk. The top 10% of funds in each broad asset class receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Ratings metrics. Each fund is rated exclusively against U.S.-domiciled domestic equity funds.