Kiplinger's PERSONAL FINANCE

FUNDS | Little-known managers have a **BIG EDGE** over those running more popular funds: fewer bucks to invest.

By Brian P. Knestout

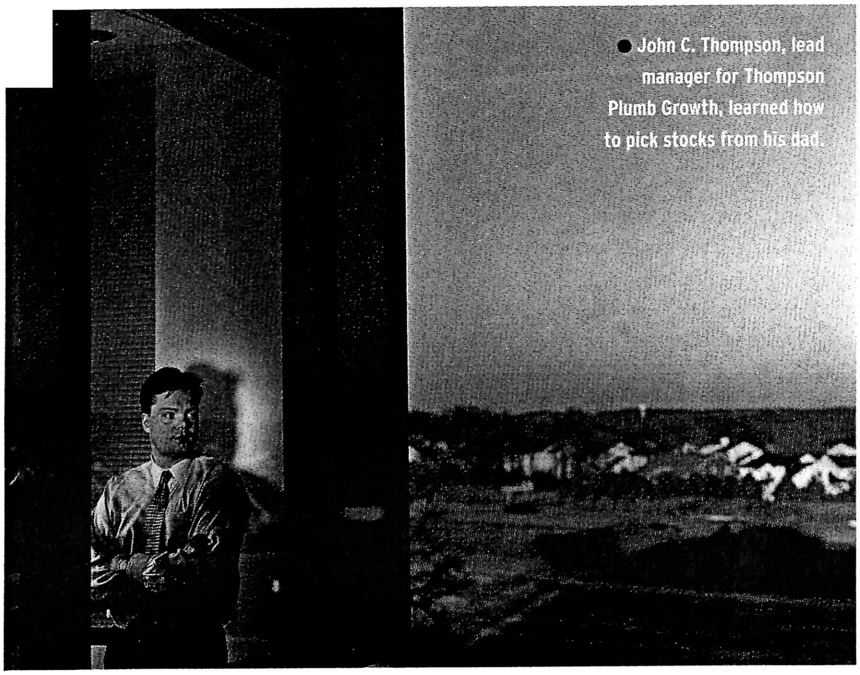
BEST FUNDS YOU NEVER HEARD OF

IN THE DAYS of the California gold rush, miners would shout "Eureka!" when they uncovered a shiny nugget. As observers of the mutual fund scene, we've been known to shout eureka on occasion, too. It happens when we uncover funds with impressive records that have remained small and unnoticed.

Obscurity alone is not the point. It's a fund's size that matters. Managers of small funds can move in and out of stocks more quickly and more efficiently than managers of larger funds. That is especially true of funds that focus on smaller stocks.

Read all about six unheralded funds—all with assets of less than $300 million—that have generated above-average returns in several market climates and have done so with below-average volatility. We interviewed the funds' managers to satisfy ourselves that the results were the products of well-thought-out processes and that there is a good chance that their funds will perform as well in the future as they have in the past.

PHOTOGRAPH BY EVAN KAFKA



John C. Thompson, lead manager for Thompson Plumb Growth, learned how to pick stocks from his dad.

Family affair

IF YOU don't like the way John C. Thompson, lead manager for **Thompson Plumb Growth** (THPGX), picks stocks, blame his dad. John W. Thompson, 58, created the fund in 1992 but transferred responsibility for daily management to his now 32-year-old son in 1994 (the firm's other founder, Thomas Plumb, isn't involved in this fund). Like his dad, the younger Thompson employs a deceptively simple strategy for picking stocks. "We have a good idea which companies we want to own," he says. "We watch the news, and when we see them trade off, we buy them."

Well, it's a little more complicated than that. Thompson begins by looking for well-known companies that generate superior cash flow. He tries to determine whether a company's competitive strategies will keep growth marching along. At the same time, he tries to figure the fair value of a stock, based on what he considers the company's long-term growth rate to be. He favors stocks that trade at the low end of historical price-to-earnings or price-to-sales ratios.

That attention to value kept Thompson from joining the technology mania, and saved his fund's shareholders from disaster the past two years. After a weak 1999—Thompson Plumb's gain of 6% trailed the S&P 500 by 15 percentage points—the fund soared 26% in 2000 and returned a respectable 19% last year.

Recently, Thompson was buying shares of beaten-down telecom giant Qwest. He reckons the stock is trading at about one-third below its true value. He also gobbled up Merck shares after the giant pharmaceuticals company disappointed investors with a poor short-term outlook.

Excerpted and adapted with permission from the March 2002 issue of **Kiplinger's Personal Finance**.

The Thompson Plumb Growth Fund returned 19.13%, 16.81%, 20.09% and 16.61% for the one-year, three-year, five-year and since inception periods ended 12/31/01, 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.