

# SLACKER FUNDS

## SEPTEMBER 2005

Getting investors to face the music is not always an easy thing to do. Trying to get investors to smarten up and sell losing positions can often become an exercise in futility for the gang at Markowski Investments. I hope some of the following information will wake some of our readers up who are either praying that the magic mutual fund fairy will help recoup some of their losses or are just living in denial. Read on, the numbers and the facts as nauseating as they may be are quite enlightening.

Currently there are billions of dollars sitting in bloated ill performing mutual funds with nothing to their credit than fancy brochures and marketing. There are 126 stock funds with \$1 billion or more in assets that have lagged behind their category average over the 10-year period through July 31, according to Morningstar. These 126 slacker funds manage \$438 billion, which is equal to 9% of all money invested in stock funds. Over a 10-year period 60% to 90% of U.S. stock funds in any one category will typically fall behind their category's benchmark index. 48 out of these funds have also trailed their category average over three and five years and they manage a collective \$192 billion. These 126 managed by the likes of Alliance, Fidelity, Janus, MFS, Putnam, Morgan Stanley and Vanguard have fared even worse. Buy and hold be damned!

A favorite target of ours is the old Peter Lynch stalwart, the Fidelity Magellan fund. This fat slacker has fallen behind the S&P 500 in seven of the past 10 years, but still has \$55 billion in assets. Size matters when it comes to managing money. There is a direct correlation between the size of mutual funds and the performance for their investors. The bigger the fund the more difficult it is to perform. For example: If the XYZ Fund owns a million shares of a certain company that is starting to tank, how does the fund go about selling a million shares? You first need to find a buyer. Large mutual funds take on the same characteristics of penny stocks in that their holdings are illiquid. David Swenson, the Chief Investment Officer of the Yale University endowment and one the highest regarded institutional money managers in the country states in his book *Unconventional Success: A Fundamental Approach to Personal Investment* that it is criminal when mutual fund companies balloon in size. It makes it nearly impossible for the manager to beat the market.

Mutual Fund companies are all about the bottom line and the more assets they manage the more money they make. The deck is stacked against the individual investor. Mutual fund companies and brokers are always pushing the wrong fund at the wrong time. Whether it is internet funds at the height of the bubble or gold funds today, most funds tend to be a day late and dollar short. Mutual funds need to be nimble and they need to be active. Managers need to have the fortitude to close a fund when it's too big as well as the ability to recognize their mistakes, own up to them, and deal with them in a timely manner. Unfortunately 98% of the time fund managers fall short.

If you have any questions regarding the mutual funds you may own, even in your 401k, please do not hesitate to ask us for some help at (800) 447-0579 or e-mail [matt@minvest.com](mailto:matt@minvest.com) as soon as possible. Sitting on losers costs you money, it's called opportunity cost. I know you think the fairy is coming, but I am here to tell you otherwise.