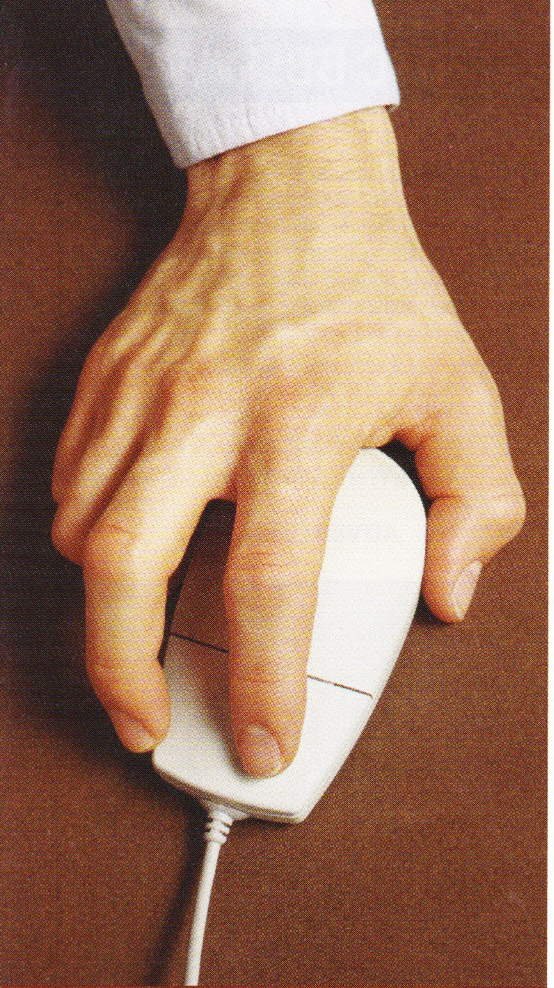

CHARACTERISTICS OF A FUND MANAGER

Matching your investment style with a manager's

by George Miller

How much do you know about your mutual fund's manager? Like many investors, you probably don't spend much time thinking about your fund manager's day-to-day choices. Instead, investors like to focus on the end result — meaning the fund's returns and your profit.

But the fund manager's decisions are key in the success of your fund. A wrong pick tends to make a fund and the manager "look bad" and the fear of failure, rather than smart decisions, often drives the actions of managers.

Therefore, fund managers are a unique group of professionals. As a whole, they tend to run in packs, and if the pack makes a good stock pick — everyone wins! But if the pack is off the mark, the manager will usually avoid the heat by hiding in the pack. And when a company fails to meet Wall Street's expectations, pack-style managers will do everything they can to avoid taking the blame.

"One reason there are so many mediocre funds is that most managers are afraid to buy things on sale."

In his book, **The Warren Buffett Way**, Robert G. Hagstrom, Jr. quotes Buffet as saying, "Most managers have very little incentive to make the intelligent-but-with-some-chance-of-looking-like-an-idiot decision." No matter how correct a buy or sell decision might seem, few managers are gutsy enough to go off on their own and risk blemishing their image or that of the firm. Remember that the object is to look good in the fund world, or so we are led to believe.

Finding the Right Manager

In today's fund arena, you'll find a few main types of managers. While one manager's approach isn't better than the others, it's best to find a manager that matches your investing style. But if you can find a manager who practices the first two styles of investment selection as outlined below, the combination can be unbeatable.

The first kind of managers is frugal in his or her picks. This is an admirable but often rare breed of manager who gets "into" the market and meets with people. From company executives to investors, this kind of manager knows who's who. For example, money manager and value investor Michael Price of Franklin Mutual Funds can make CEOs shake in their boots. If Price takes a big enough position in a particular company, he can have a major voice in how the company should then be structured. Price will then have a big say in who the CEO should be.

Another type of manager relies solely on his or her computer. This manager never boards a plane to visit a potential pick's operation and never goes anywhere. This computer-friendly manager uses the super information highway to lead him or her to the right picks, and many are highly successful.

There are other types of fund managers. Some shun the typical "pack" behavior and gravitate toward castaway picks such as Chapter 11 cases, out-of-favor underdogs with below average price/earnings, price-to-book and debt-to-equity ratios. This kind of manager often finds companies in the middle of a turnaround — companies that haven't yet caught the eye of the mainstream investors — leading to surprise spurts of growth.

There are also lots of average managers, which tend to lead to lots of mediocre funds. Many managers are afraid to buy things on sale. Therefore, they only buy what and when their peers are buying because it's institutionally safe.

High vs. Low Asset Turnover Rates

Many value fund managers hold their stocks for three to four years and more, while other managers trade in a flurry, rolling assets 300 to 400 percent a year. High trading means more commissions and more taxes, cutting into your earnings. Low trading activity will bring lower taxed long-term capital gains and lower trading costs.

But if you do go into a fund with a high asset turnover rate, do it with a tax-deferred account such as an IRA, 401K or a variable annuity. This way you won't get killed with year-to-year fees and short-term capital gains taxes. ■

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