___ *Your Name('s)* ___

MUTUAL FUNDamentals[sm]

What you need to know before you invest ... and lots more

Your Name, Title, Designation, Company, Address, Phone

August 1996

MUTUAL FUND HOT LISTS ... BEWARE.

Next time you see a "Top 40" magazine fund list, save that issue until their next hot list comes out. Then check how many funds are still on the list. One recent study of a popular magazine showed none of the funds - ZERO on the first list appear on their list only 2 years later.

Why? Because they lean too much on recent performance - on beating the market now and few funds, even great long-term performers stay on these lists from one year to the next. If the magazine catches the fund in an up year, it makes the list. If the fund drops a bit, it could be on the loser list next time around with no regard for its long term history.

Many magazines measure funds like your local paper might a .149 baseball hitter going 3 for 4 and crowning him King For The Day, while many ".295" funds perform nicely year in and out that you seldom hear about. What a disservice to the serious long-term investor.

Why do they do this? Because it sells magazines and that's their business. Too many investors don't have the patience to build their portfolios over time and reap average equity market returns of 10%. That's too boring. In an age of immediate gratification, they want 18 and 20% right now. They love to dream and the publishers are "gonna give em all they want."

Even quality magazines get trapped into playing beat-the-market, telling people what they want to hear in order to compete for readership. Hot numbers have become the game the media must play to survive no matter how wrong it is. And it lures many investors into a horrible habit of short-term fund trading the same way many short-term stock traders lose fortunes.

Performance chasing is an invitation to disaster. A recent study by Dalbar Financial Services showed a direct relationship between how long investors held on to their funds and the yearly returns they got. The study measured 10-year returns from 1984 through 1993 for bond fund investors dealing direct with funds vs investors working through financial advisors.

Average stay time in funds for direct investors was about 25 months with cumulative returns of 77% vs advisor assisted funds of 51 months with cumulative returns of 94%. With stock funds the gap was even wider - 70% vs 90%. Why? Because financial advisors generally encourage clients to stay the course in tough times and not jump ship at every sign of a downturn. When you play, you pay!

So the lesson here is to see the hot list for what it is - just another sifting tool to help you narrow down your potential buy-list. But it's only the tip of the iceberg. >>>>>