



December 10, 2003

2002 WI Mutual Fund Scorecard Commentary

One of the few redeeming things about a multi-year bear market is that you get to separate "fact from fiction" when it comes to claims made by Wall Street regarding investing strategies.

Let's look at the facts!

It's better to diversify with U.S. bond funds than foreign stock funds.

Under the guise of diversification, many investment professionals strongly support the notion that EVERY U.S. investor needs to have a sizeable portion of their portfolio invested in foreign stocks funds at all times. The reason given is that a portfolio will perform better, especially when U.S. stocks are doing poorly.

Unfortunately, this advice has generally not protected U.S. investors during this terrible bear market. As shown on our mutual fund scorecard, foreign stock funds have consistently done poorly in all time frames tested over the last 15 years, and very few of the funds have been able to beat the S&P 500 index. To add insult to injury, over the last 5 volatile years, only 15% of the foreign stock funds were able to beat the S&P 500 index versus 48% of U.S. stock funds.

In contrast, not only did U.S. bond funds performed well during these volatile times (up 6.1% annually over the last 5 years); they have generally been able to beat foreign stock funds in all timeframes tested.

Simply put, while there are compelling reasons for non-U.S. investors to invest in U.S. stocks, the opposite is simply not true. Unfortunately, many investors paid dearly for this disastrous misuse of diversification.

Growth and value funds have comparable performance.

As we all know, disciples of growth and value investing regularly "spar" with each other over which philosophy reigns supreme in the investment world. We now have the answer:

BOTH!

Although value funds slightly edged out growth funds in all time frames tested, it was not statistically significant enough to declare victory. Both strategies can be profitable to use but do not usually produce profits at the same time. The only way for an investor to be successful in the long term is to stick to a discipline and avoid switching between strategies year to year.

Mid-cap stock funds are simply the best!

Wall Street often touts the superior long-term performance of small cap stock funds vs. large cap stock funds, but rarely mentions the great performance of mid cap funds. While small-cap funds did edge out large-cap funds in all time frames tested, the real surprise was the overall great performance of mid-cap stock funds.

Of the 11 different categories of stock funds we track, mid-cap funds had the highest percentage of funds within the category that outperformed the S&P 500 index in all timeframes tested. In fact, over the last five years, 71% of mid-cap funds beat the S&P 500 index and were profitable.

by Ken Winans 12/10/03

Average Annual Total Return (%)											
The number of funds that have beaten the S&P 500 (%)											
	# of									Asset	Expense
	Funds		10 yr		5 yr		1 yr			Turnover	Ratio
S&P 500 Index		11.5%	9.3%		-0.6%		-22.1%				
Stock Mutual Funds:											
U.S. Stocks	1804	10.5%	27%	8.0%	30%	-0.3%	48%	-22.3%	46%	78%	1.24%
Growth Strategy	688	9.9%	25%	6.7%	17%	-1.4%	39%	-28.6%	17%	102%	1.38%
Blended Strategy	727	10.7%	29%	8.7%	32%	0.3%	49%	-20.2%	53%	66%	1.10%
Value Strategy	372	11.0%	32%	9.2%	46%	0.7%	60%	-14.9%	85%	59%	1.29%
Large Cap Stocks	1101	10.3%	23%	7.8%	23%	-1.4%	34%	-23.8%	37%	69%	1.29%
Mid Cap Stocks	356	10.9%	43%	8.5%	48%	1.8%	71%	-19.9%	60%	97%	1.33%
Small Cap Stocks	330	10.8%	36%	8.3%	38%	0.9%	64%	-20.2%	60%	89%	1.02%
All Foreign Stocks	362	5.1%	0%	3.8%	1%	-4.9%	15%	-22.9%	37%	72%	1.37%
Europe Stocks	107	5.4%	0%	5.0%	3%	-5.4%	12%	-23.5%	29%	75%	1.30%
Asia Stocks	36	0.3%	0%	-1.2%	0%	-2.4%	23%	-21.1%	61%	48%	1.37%
Emerging Stocks	17	n/a	0%	-1.2%	0%	-4.6%	14%	-20.5%	61%	74%	1.64%

	# of									Asset	Expense
	Funds			10 yr		5 yr		1 yr		Turnover	Ratio
Precious Metals	41	-0.8%	0%	3.0%	0%	7.6%	93%	62.7%	100%	81%	1.45%
Real Estate	142	-	0%	8.2%	50%	2.7%	95%	3.7%	100%	61%	1.01%
Over \$1 Billion in Assets	225	11.1%	36%	8.8%	32%	0.0%	45%	-22.3%	48%	55%	1.39%
Under \$1 Billion in Assets	4353	9.8%	21%	7.2%	23%	-1.2%	27%	-23.2%	41%	103%	1.11%
Less Than 25% Turnover	388	10.5%	20%	8.4%	24%	-2.2%	27%	-24.2%	22%	11%	0.90%
More Than 25% Turnover	1162	9.5%	16%	7.0%	16%	-3.3%	23%	-26.2%	16%	97%	1.31%
Less Than 1.25% Expenses	882	10.0%	21%	7.7%	22%	-2.9%	23%	-25.0%	17%	65%	0.82%
More Than 1.25% Expenses	651	9.3%	14%	6.4%	11%	-3.3%	25%	-26.7%	18%	93%	1.73%
Fixed Income (Bonds):											
US Corporates	117	7.8%	0%	6.8%	3%	6.1%	100%	7.9%	100%	148%	0.69%
High Grade	75	7.7%	0%	6.6%	7%	6.7%	100%	8.6%	100%	101%	0.60%
High Yield	86	5.9%	0%	3.9%	0%	-2.5%	27%	-2.1%	100%	86%	1.02%
US Treasuries	101	7.9%	6%	6.9%	5%	6.7%	100%	10.4%	100%	168%	1.25%
Municipals	702	7.0%	0%	5.8%	0%	4.9%	100%	8.3%	100%	36%	1.88%
Worldwide Bonds	24	7.0%	0%	7.0%	0%	5.3%	100%	12.8%	100%	203%	1.48%

Limited to Open End Mutual Funds with over \$50mm in Assets
 Bonds funds limited to medium & long term
 Research by Winans International