

the top eighth of all U.S. funds for the past year, the top fifth for the past five years, and the top 10th for the past 10, 15, 20 and 25 years—an unrivaled marathon of excellence. Davis thus gets my vote as America's most reliable fund manager.

Yet more investors pick Wick to handle their money. At the end of 1992, his fund had just \$57 million in assets. But then tech stocks got hot and, in the ensuing 33 months, Wick's smart picks made his early shareholders 206% richer. In that same span, though, the fund's assets didn't merely triple but grew 53-fold. As is so often the case, fund investors went for flash.

Davis, meanwhile, must be wondering if he eats too much garlic. In the same 33 months, New York Venture's assets grew just three-fold, despite a 57% gain that placed it in the top 13% of U.S. stock funds.

Wick is getting lots of ink. Just listen to this from the October issue of one of our rivals: "Wick...has a distinction that even Peter Lynch never did: He is the industry's first-ever Triple Crown holder, with his fund topping all other funds for one-year, five-year and 10-year performance."

That's silly. Wick has run his fund for less than six years, so he deserves no credit (or blame) for its performance before 1990. What's more, Wick's chart-busting recent results have so wildly inflated his fund's five-year and 10-year records that they're virtually meaningless (see the chart on the facing page). Fully two-thirds of his fund's "10-year" gains were earned since the beginning of 1993. What, then, can a 10-year record tell you about the fund's, or about Wick's, long-term results? Very little. True, the record looks marvelous, but that's because Wick has been so hot lately. And I do mean lately—2½ years to be exact.

Welcome to that numerical fun house I mentioned. Ready for a quick tour? Let's say you find a five-year, \$1,000 certificate of deposit that pays 10% annually. At the end of Year One, you'll have \$1,100; after Year Two, \$1,210. After five years, you will have \$1,611 and a 10% average annual return.

Now let's say you put \$1,000 in the Hotshot Mutual Fund. The first year,

Hotshot loses 10%, leaving you with \$900. In year two, it shrinks another 10%, or \$90, to \$810. After two more years of 10% losses, you have just \$656 left. Then, in year five, Hotshot gets lucky, scoring a 145% return. You finish with \$1,611—and the same 10% average return as with the CD. That's because average annual return restates a fund's cumulative results as if they were earned in equal yearly units, like the CD's. In real life, they never are.

Now I ask you: Is Hotshot's 10% the same as the CD's 10%? Of course not. If you took Hotshot's 10% five-year return at face value, you would never guess that Hotshot stunk like a skunk four out of five years. See why I warned you that total returns can twist reality?

Of course, Paul Wick's fund is not the same as the Hotshot fund. And Shelby Davis' New York Venture does not act like a CD. But it does beat its peers with nearly the certainty of CD interest payments. Moreover, it has not lost more than 3% in any year since 1974.

Davis began learning about investments at age 12, when his late father, Shelby Cullom Davis, a successful private New York City money manager, started taking him on the road to visit top executives of insurance companies. "My father focused not on quarterly earnings but on the long term," recalls Davis. At the dinner table, Shelby's dad taught him the Rule of 72: To see how long it takes money to double, divide the growth rate into 72. Thus at 10% growth, money will double in about seven years. In a period of low inflation, that's fast enough for Davis.

So it's no accident that Davis holds his typical stock for seven years; by contrast, the average fund bails out after just 15 months. Davis tries to buy stocks whose earnings can grow at a placid 10% a year but that are selling for around 10 times earnings. These days that mainly means banks, insurance and other financial stocks, some auto, energy and consumer shares, and even a few technology stocks like Intel Corp. Unlike the "earnings momentum" stocks favored by gung-ho in-

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vestors like Wick, Davis' stocks don't have to meet high expectations. If they merely match his limited hopes, they should double in seven years.

"Investing should be like a garden," says Davis. "Each year, you plant a few things, you harvest a few things. But you should never uproot the whole garden at once. Something should always be in bloom." Adds Davis: "If you're a momentum investor, you want everything in bloom at once—and I think that's very hard to sustain for long."

Can Wick, a momentum investor par excellence, keep on blooming? That's anybody's guess (he was unavailable for an interview). But the betting here is that the real rose in the fund garden belongs to cultivators of consistency like Davis and the 19 other worthy managers whose funds are cited in the article that begins on the next page.

As you consider them—or any other funds—don't look just for the gaudiest gains. In the prospectus, examine not only the fund's average annual returns but its cumulative and year-by-year gains as well. If much of the "long term" cumulative returns were earned in the past year or two, you're looking at a fund that might flame out.

Lastly, listen to Shelby Davis: "My father taught me to ask how much you can lose before you even dream about how much you might make." Those are pretty good words to live by. **ES**

Reporter associate: Derek Gordon