



# Why your fund manager may work better 'in the dark'

SOMETIMES, INVESTMENT IDEAS are like wild mushrooms: The more appealing they look, the more toxic they turn out to be. Lately, the mutual fund business has been all abuzz with the suggestion that portfolio managers should reveal monthly what they own, rather than only twice a year as most do now. At first glance, that seems like a pretty attractive idea—isn't more information always better?—but, in my opinion, it's pure poison for your portfolio.

When you've turned a portion of your life savings over to a total stranger, it's only natural for you to be a little annoyed when he forces you to wait up to half a year to see exactly what he invested in. If it turns out your fund manager's favorite stock is a biodegradable underwear company based in Indonesia, you might want to dump his fund right now, rather than having to wait another six months just to learn of his risky position.

And some money managers do open their books more often, making frequent portfolio disclosure seem harmless enough: The Oakmark funds issue detailed quarterly reports, Fidelity lists its funds' top 10 holdings each quarter and the small Mosaic funds of Madison, Wis. provide daily Internet updates ([www.mosaicfunds.com](http://www.mosaicfunds.com)). But the Securities and Exchange Commission requires such disclosure only twice a year, and most funds go by the rules.

Late last year, the issue got hot in a hurry when a group of 71 financial planning firms—which together have \$13 billion of their clients' money invested in mutual funds—sent a kind of grievance letter to 94 fund companies. The letter asked the funds to report

their holdings to the planners every month.

I hope the financial planners' other requests (funds should cut expenses and get more tax-efficient) come to pass, but monthly disclosure is bad for you and bad for fund managers. Here's why:

If you're a long-term investor, what your mutual fund owns in any given month is no more important than the number of times the letter R appears in the fund's name. Think about it: Ten years from now, you probably will not—and certainly should not—care whether your fund bought, held or sold shares of Citicorp in March 1998.

Considering that only 7% of the typical stock fund's holdings change each month, it hardly seems worth your while to pore over the portfolio 12 times a year. Remember too that the whole reason you wanted to hire the fund manager in the first place is that you think he's better at stock picking than you are. Do you really want to be his monthly morning quarterback?

What's more, if your fund starts telling everyone what it owns each month, Wall Street's sharp traders will be able to follow—far better than they already can—what your fund is doing. These folks can profit by trading ahead of a big fund, buying whatever the fund is buying and selling what it's selling. That maneuvering by outside speculators will drive up the price your fund pays for stocks—and drive down the price it gets when it sells. As a result, higher trading costs will eat away at your returns.

Having to list his stockhold-

ings more frequently might also make your fund manager even jumpier than he already is. Many managers appear to engage in "window dressing," cleaning out their losing investments right before they have to disclose what the fund owns. That doesn't keep them from buying losers—it just keeps you from seeing losers. And if the managers have to report all of their securities 12 times a year instead of twice, they may feel goaded into giving up on some of their unfashionable stocks even sooner.

Finally, monthly reporting might make some managers stick with their stocks too long. In a psychological study published last year in the *Journal of Behavioral Decision Making*, business professors Jesse Beeler and James Hutton found that investors who made their decisions public tended to "dig in their heels," ignoring evidence that might show they were wrong. Thus, having to display portfolios more often may put managers on the defensive and make them reluctant to correct their mistakes. Concludes Beeler: "There is a dysfunctional aspect to disclosing more often."

My suggestion to fund companies: There's no need to disclose full portfolio holdings more than quarterly (with a 30-day delay to help keep predatory traders at bay). My suggestion to you: If your fund starts sending monthly updates, throw them in the garbage; a semiannual checkup is plenty. You'll never reach your long-term goals if you get distracted by short-term trivia. **S**

