

now. The drafters of the bill feared that "too large an aggregation of capital could not be efficiently managed." The final law omitted the \$150 million limit, but it did empower the SEC to review "from time to time" whether funds are getting too big for their customers' good.

The last time the SEC looked at the issue—30 years ago—only nine funds had more than \$1 billion in assets apiece. Still, the SEC warned in a report to Congress: "Should the growth of the largest funds and fund complexes continue, these funds might soon reach the point...where their portfolio mobility would be so seriously impaired as to affect gravely the interests of their shareholders."

Today, 376 funds have more than \$1 billion apiece. So I asked Barbash if the SEC plans a formal study of whether funds are growing too big, too fast. "We recognize that size is an issue," he says. "But given our budgetary crunch at this point in time, I'd question whether we can do such a study."

Translation: The marketplace is going to have to sort this out. And that means you. What are my suggestions?

► **First, think small.** Don't buy funds whose assets have skyrocketed—say, at least doubled or grown by \$1 billion or more over the past year or so.

► **Second, stick with outfits that have shown they know when to stop taking in money**—especially if you favor small-cap funds. Among them: Longleaf Partners, Quantitative Numeric, Royce, T. Rowe Price, Vanguard and Wasatch.

► **Third, lean toward funds whose managers put their own money in them.** (This information is often found in the footnotes to the financial statements in fund annual reports.) As Longleaf's Mason Hawkins tells me: "Our employees have more than \$60 million of our own capital in the funds. We're not driven by fees but by compounding our own capital. We did not want more money. Investing is difficult enough without having to do things that are irrational—like buying second-rate stocks just to put extra cash to work."

► **Fourth, make large-stock index funds your portfolio's cornerstone.** They combat asset elephantiasis, since the managers must automatically invest in the same stocks—those represented in the

benchmark the fund mimics—no matter how much money pours in. Or consider nonindexed large-cap funds, whose holdings are already big; new money will change them less radically than small-cap funds.

► **Fifth, take action.** If you do own a fund that has grown very big, very fast, write the fund company, and the fund's board of directors, and demand that no more new customers be brought into the fund against your best interests. If the directors are up for election on a proxy, vote to fire them.

► **Finally, keep your expectations in check.** Many hot funds today can no longer maintain the nimble portfolios that made them famous. Your hot fund's returns are likely to be more sluggish, and risk may well be higher, now that it has grown so large. If that bothers you (and your capital-gains tax bill won't be too high), think about selling out of your hot fund and putting the proceeds into a fund that is not raking in assets as fast. You may have to give up a little performance in the short run, but in the long run I think you will come out ahead. **S**

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