

## MUTUAL FUNDS

tively cheap stocks, like \$2.7 billion **Davis New York Venture** and \$2.2 billion **Neuberger & Berman Partners**, are less likely to have investors stampeding in and out of them than, for example, the riskier funds run by AIM or PBHG.

### 5. Don't kid around with sector funds.

Portfolios filled with stocks from a single industry can produce wild swings in returns that challenge the staying power of any investor. The \$200 million **Midas Fund**, which invests in precious-metals stocks, earned a 21.2% portfolio return in 1996—but, by our math, the average shareholder actually lost 14.5%.

And just look at the difference in returns at Dan Leonard's \$838 million **Invesco Strategic Technology** and Paul Wick's \$2.4 billion **Seligman Communications and Information**. At the Invesco fund, money came in gradually, so Leonard's average shareholder made 24.3% annually in the three years that ended in 1996—even better than the portfolio's 23.2% annual return. But at Seligman, nearly all the customers stampeded into the fund in 1995, just before tech stocks crashed; so, while Wick's portfolio

earned 29.5% annually over the same three-year period, his average shareholder pocketed just 15.4%.


In my view, sector funds make sense only for people who fully understand the industry they are investing in and the riskiness of that narrow bet—and are willing to stay put for the payoff.

**6. Embrace discipline.** Anything that compels you to sit tight with your funds is a good thing. Some examples: dollar-cost averaging, which makes you invest a fixed sum at preset intervals over time; short-term redemption fees, which penalize you for selling too soon; and even those sales loads that we journalists have always told you to avoid. If paying a commission gets you a good broker who forces you to stay the course, it's money well spent.

### 7. You get the returns you deserve.

That's one of my favorite expressions, and I think you should take it to heart. Back in 1970, the average investor held a fund for more than 16 years. Today the typical shareholder holds a fund for less than seven years. "The average holding period is so short it's tragic," says Vanguard's Bogle.

Mutual funds are meant to be a long-term investment, not a trading vehicle. If you owned Michael Schonberg's fund for a few months and sold it as soon as it dropped, you've got no one to blame but yourself. Your fund manager can make money for you only if you stick around long enough to allow his strategies to work. What's more, your bad behavior makes his job even harder. As Peter Lynch wrote in his book *Beating the Street*: "Shareholders play a major role in a fund's success or failure. If they are steadfast and refuse to panic in the scary situations, the fund manager won't have to liquidate stocks at unfavorable prices to pay them back."

This is the only way to resolve the paradoxes of fund returns: Instead of loving and leaving a constantly shifting mix of hot funds, pick a handful of investments and marry them for the next five years, 10 years or longer. If you treat your funds right by standing by them for the long run, they should treat you right too. 

Reporter associates: **Malcolm Fitch**  
and **Jeanhee Kim**

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