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## MUTUAL FUNDS QUARTERLY REVIEW

### *Open & Shut* **New Funds Go Abroad; One Moves Stealthily**

 By **ELEANOR LAISE**  
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New mutual funds are focusing on stocks that are highfliers -- and some that are flying below the radar. Here's a sample of the latest offerings.

#### Top Secret

The Claymore-Sabrient Stealth Portfolio sounds like a top-secret Pentagon project. In fact, it is an exchange-traded fund that will invest in Wall Street's wallflowers -- stocks that have little or no analyst coverage. An ETF resembles a conventional mutual fund but trades on an exchange like a stock.

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The ETF, set to be launched by Claymore Group's Claymore Advisors LLC, in Lisle, Ill., will track the new Sabrient Stealth index, which will be compiled by investment-research company Sabrient Systems LLC. The index will include about 250 stocks that are followed by one or fewer Wall Street analysts and have strong historical earnings growth and low prices relative to earnings.

Academic studies have found that companies with little analyst coverage deliver better returns than their more-popular peers. Investors tend to be overconfident in companies that have high levels of analyst coverage, the research shows, driving these stocks to levels that ultimately can't be sustained by the company's earnings. Less-followed stocks are good targets for contrarian investors. "You can make a lot of money buying those [stocks] that are neglected," says Lewis Altfest, a financial planner in New York.

There is no historical performance data for the Stealth index. Another index created by Sabrient, representing stocks with no analyst coverage, posted a 70% return between its inception in November 2004 and early June of this year, says Scott Martindale, senior managing director at Sabrient.

One caveat: Stocks with little or no analyst coverage are often some of the market's smallest and most volatile companies. Small- and micro-cap shares have enjoyed strong returns in recent years

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compared with larger peers, and some advisers are cautioning clients to trim their small-cap holdings. Mr. Altfest recommends keeping them to about 10% of a portfolio.

### **Property With a Passport**

Location, location, location: As the U.S. housing market slows down, mutual-fund companies are looking for overseas addresses.

**Northern Trust Corp.** plans to launch the Northern Global Real Estate Index Fund. No other index-tracking fund for U.S. retail investors focuses on properties throughout the world, according to fund-trackers Morningstar Inc. and Lipper Inc. The fund will hold about 300 stocks from 21 developed-market countries, including Australia, Germany and Japan.

According to Securities and Exchange Commission filings, other global real-estate funds are in the works. These include Goldman Sachs International Real Estate Securities and Cohen & Steers Asia Pacific Realty. Similar funds launched recently include Franklin Global Real Estate, Kensington International Real Estate and ING International Real Estate.

While international real-estate stocks have performed well of late, they are still "a good bit cheaper" than U.S. counterparts, says real-estate fund manager Sam Lieber of Alpine Woods Capital Investors LLC. The Dow Jones Wilshire REIT index, which tracks U.S. real-estate investment trusts, gained more than 14% in the first half of this year, while the Dow Jones Wilshire Global REIT index has gained about 13%.

Financial planners say international real estate can diversify a portfolio, but they warn that investors should limit their stake in these stocks. Interest rates are rising around the globe, and that is often bad news for real-estate investments. Individuals interested in the new batch of global real-estate funds might consider replacing some of their U.S. real-estate fund holdings, instead of increasing their overall real-estate allocation, advisers say.

### **Late to the Party?**

Amid the breath-taking returns of emerging markets in recent years, Brazil, Russia, India and China have been among the leaders. In recent weeks, these so-called BRIC countries have tumbled along with other emerging markets. Despite the seeming bad timing, BRICs are being packaged in mutual funds designed for individual investors.

In early June, as the selloff gathered steam, **Franklin Templeton Investments** launched Templeton BRIC Fund, the first of its kind for U.S. individual investors. Goldman Sachs Asset Management has launched Goldman Sachs BRIC Fund, and Claymore Advisors plans to launch an ETF called Claymore-BNY BRIC Select Portfolio, according to regulatory filings.

Such funds carry risks for investors. As newcomers to the category learned in the spring, emerging-market stocks have big price swings. "If you're going to focus on an even narrower segment, you're constructing a fund that has an even greater potential for volatility," says Arijit Dutta, an analyst at investment-research company Morningstar Inc.

The stumbles of these markets may be a well-deserved pause -- or the start of a long-term rout. Even after the declines, Morgan Stanley Capital International's BRIC Index is up 55% in U.S. dollar terms in the 12 months ended June 30, while its broader Emerging Market index is up 32%.

Mark Mobius, Templeton BRIC's portfolio manager, says the timing of the fund's launch isn't cause for concern. "If you're going to be in equities, you've got to be long term, and when you start doesn't make a heck of a lot of difference," he says. For BRIC countries, "the outlook is quite good from the long-term point of view."

BRIC funds can play a limited role in an investor's portfolio, says Lane Jones, chief operating officer at Evensky & Katz, a wealth-advisory firm in Coral Gables, Fla. He sees them at 3% to 5% of investors' portfolios, with a holding period of at least five to 10 years.

### **Bargain-Shopping Abroad**

Fidelity Investments, coming off success overseas, has filled a hole in its foreign-fund lineup.

In May, the company introduced its International Value fund. Manager George Stairs, a veteran of Putnam Investments, focuses on companies that look cheap compared with their potential earnings or valuations of peers, buying those he expects to catch up.

Because Putnam's funds are generally team managed, it is hard to assess Mr. Stairs' track record. He will be assisted by Fidelity's team of analysts, who have proven adept at picking foreign stocks, says Jim Lowell, editor of the Fidelity Investor newsletter. Fidelity's Emerging Markets and International Discovery funds, for example, rank near the top of their respective categories in the past three years, according to Morningstar. Strong stock research can be especially important in international markets.

Diamond-in-the-rough "value" stocks have outperformed "growth" stocks -- those of companies with fast-expanding profits -- in recent years. Value stocks could be headed for a slowdown. Even so, many advisers say individual investors should lean toward them, noting that their price swings tend to be less dramatic than those of growth stocks. Louis Kokernak, a financial adviser in Austin, Texas, devotes 20% or 30% of clients' foreign-stock allocation to a value stock fund and puts the rest in a broad index fund.

The new fund joins a lineup of about 35 Fidelity international stock funds that generally invest in a mix of value and growth stocks or follow a more aggressive growth strategy. Longtime Fidelity investors might find the name familiar. Fidelity offered an International Value fund in the 1990s, but changed its name to Fidelity Aggressive International in 2000, giving the fund more flexibility to invest in growth-oriented shares. The new fund will charge annual expenses of 1.18% of assets; the average international stock fund charges about 1.7%, according to Morningstar.

### **Closing Doors**

Fidelity has taken heat over the years for allowing funds to grow too large. But the company has taken steps to combat that bloated image, recently closing Contrafund, Advisor New Insights, Growth Company, Mid-Cap Stock and Small Cap Stock to most new investors.

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