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# The Year That Was in Mutual Funds

A look at 2005

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## How did funds perform in 2005?

- × Soaring energy prices propel natural resources funds to big gains.
- × International funds continue to outpace their domestic counterparts.
  - × Emerging markets remain on a roll.
    - Latin America funds up more than 50% in 2005; more than 50% annually over the trailing three years.
    - In bonds, emerging markets the place to be in 2005.
  - × Japan's resurgence ongoing.
- × Real-estate defies gravity. The group has been among the best performing domestic-equity categories in 2005, the fifth consecutive year of outperformance.

## How did funds perform in 2005?

- × Growth comes back, at least overseas.
  - × Trend at home less pronounced.
- × Large caps continue to lag.
  - × Mid caps lead the way.
- × Rising rates finally pinch bond funds.
  - × Defensive funds begin to regain lost ground.
- × GM and Ford woes stop high-yield rally cold.
- × On the other hand, high-yield municipal bond funds crush their high-quality counterparts.

## Where have all the dollars gone?

- × American Funds. The rich get richer.
  - × \$57.7 billion in inflows through August 2005.
  - × Of 2005's top-10 selling funds, six are American funds.
    - Growth Fund of America has taken in \$11.6 billion in 2005, bringing total assets to a whopping \$114.7 billion.
  - × \$61 billion in 2004 and \$41 billion in 2003.
- × Investors chase returns. Foreign fund, natural resources categories most popular in 2005.

## Flight to quality continues

- × American: \$58 billion
- × Vanguard: \$40 billion
- × Fidelity: \$6 billion
- × T. Rowe Price: \$11 billion
- × Dodge & Cox: \$11 billion
- × Putnam: (\$13.5 billion)
- × Janus: (\$9 billion)
- × AIM: (\$8 billion)

## Fund Developments of 2005

- × Exchange-traded funds (ETFs) proliferate.
- × Fidelity launches price war. Vanguard responds.
- × Lifecycle/Target-retirement funds gain increasing traction.
  - × Alliance, MFS, Hartford, Principal, Schwab launch line-up.
- × Environment for skilled managers and analysts becomes more competitive.
  - × Fidelity plans overhaul and expansion of analyst staff. Wellington poaches prominent managers.
- × Bob Stansky steps down from struggling Fidelity Magellan. Fidelity names Harry Lange successor.

Managers of famed Clipper Fund close up shop.

# The Year in Morningstar Research

× What investors see isn't always what they get...

Fund	Dollar-weighted 10-Yr. Return	Official 10-yr Return	Gap
T. Rowe Equity Income	11.52	11.53	-0.01
Artisan Small Cap	6.83	8.40	-1.57
Fidelity Low-Priced Stock	14.61	16.36	-1.75
Amer Funds Growth	8.42	12.93	-4.51
Selected American	8.37	13.36	-4.99
Weitz Value	8.51	16.36	-7.85
Janus Mercury	-3.94	10.12	-14.06
Calamos Growth	6.36	21.17	-14.81
White Oak Sel Growth	-14.68	8.18	-22.86

## The year in Morningstar research, continued

### × Are more expensive funds riskier?

- × Expenses the most reliable predictor of long-term performance, but does it tell us anything about risk?

- × Fixed-income

Higher-expense bond funds didn't have substantially higher standard deviations than lower-cost bond funds, though they took on more credit risk and had longer durations.

- × Equity

Higher-expense stock funds were more volatile than lower-expense stock funds, had more exposure to riskier small caps and emerging markets.

Expensive large-growth funds took on more



## A look ahead

- × Some predictions for 2006
  - × Large caps return to favor.
  - × The growth and value gap narrows.
  - × Real estate, energy, emerging markets cool.
  - × Technology: The Comeback Kid?
  - × Fund shops launch more hedge fund-like mutual funds.
  - × Popularity of ETFs continue.