

FundInvestorSM

Research and recommendations for the serious fund investor

The Fantastic 48

It's time once more for my annual screen for fantastic funds. The idea is to be very picky and very quantitative. I set up a list of key tests that I have for a fund and then see how many pass. This year, only 48 funds out of a universe of nearly 8,000 passed my tests. The rules are strict. I don't let funds slide in just because they are pretty good. Here are the screens:

Cheapest quintile of category. Morningstar studies show that funds in the cheapest quintile of their Morningstar Category are a much better bet than the rest of the investment world, so this is the first test.

Manager investment of more than \$1 million in the fund. We found that funds where at least one manager has invested more than \$1 million of his own money are more likely to outperform than those without such alignment of interest.

Morningstar Risk rating below the High level. Our Morningstar Investor Return studies have found that highly volatile funds are much harder for investors to hold, and investor returns tend to trail total returns.

Morningstar Analyst Rating of  Bronze or higher. This fundamental, forward-looking rating factors in qualitative and quantitative measures.

Parent rating of  Positive. You want a good steward with a strong investment culture when you invest for the long haul.

Returns above the fund's benchmark. The best time period for looking at a fund is the manager's tenure rather than a standardized time period. So, I start with the earliest start date of the managers on a team and insist that the fund beat the benchmark over that time period. I used returns through May 2016. There is a minimum five-year manager tenure, too, to weed out those with less meaningful track records.

One new wrinkle this year is that if I thought a fund's prospectus benchmark was a bad fit or if we didn't have the benchmark's track record far enough back, I opted for the category benchmark. This was mainly done to address the fact that many balanced funds have one equity benchmark and one bond benchmark rather than a blend of the two. That means they have either a very high or very low bar depending on which was the primary benchmark. Our category benchmarks are blended mixes of stocks and bonds, which make them a better fit.

Finally, I throw out institutional share classes to help you get a list you can use. (There are three funds with "institutional" in their names but minimum investments of \$25,000 or less, which I don't consider to be institutional.)

I didn't exclude closed funds because many people still own them and would welcome confirmation that they are on the right track.

We have eight newly fantastic funds that I will highlight here.

Newly Fantastic

American Funds Capital Income Builder CAIBX

This fund is back on the list after spending a year on

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Russel Kinnel, Director of Manager Research and Editor

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Fantastic 48	Ticker	Prospectus Benchmark	Morningstar Analyst Rating	Overall Risk	Expense Ratio %	Start Month	Tenure Return Ann. %	Index Return Ann. %
American Funds AMCAP	AMCPX	S&P 500 TR	Gold	Below Average	0.68	1996/06	9.39	7.88
American Funds American Balanced	ABALX	S&P 500 TR	Silver	Average	0.58	1997/02	7.95	7.19
American Funds Capital Income Bldr	CAIBX	MSCI World NR	Silver	Average	0.59	1992/02	8.86	6.75
American Funds Capital Wrld Gr&Inc	CWGIX	MSCI World NR	Gold	Average	0.77	1993/04	10.33	6.88
American Funds Europacific Growth	AEPGX	MSCI EAFE Growth NR	Gold	Below Average	0.83	1992/01	8.27	3.99
American Funds Fundamental Invs	ANCFX	S&P 500 TR	Gold	Above Average	0.60	1993/04	10.24	8.99
American Funds Global Balanced	GBLAX	MSCI ACWI NR	Silver	Below Average	0.85	2011/03	5.78	5.27
American Funds Growth Fund of Amer	AGTHX	S&P 500 TR	Bronze	Below Average	0.65	1993/12	10.45	9.07
American Funds Invmt Co of Amer	AIVSX	S&P 500 TR	Silver	Below Average	0.58	1992/04	9.44	9.24
American Funds New Perspective	ANWFX	MSCI ACWI NR	Gold	Below Average	0.75	2001/01	6.76	4.16
American Funds New World	NEWFX	MSCI ACWI NR	Gold	Low	1.04	1999/07	7.24	3.72
American Funds Washington Mutual	AWSHX	S&P 500 TR	Gold	Below Average	0.58	1997/08	6.86	6.23
Baird Short-Term Bond	BSBIX	Barclays US Gov/Credit 1-3 Yr TR	Silver	Below Average	0.30	2004/09	2.95	2.57
Berwyn Income	BERIX	Citi USBIG	Silver	Low	0.64	2006/01	6.91	4.76
Diamond Hill Long-Short	DIAMX	Russell 1000 TR	Bronze	Average	1.39	2000/07	6.48	4.58
Dodge & Cox Balanced	DODBX	Barclays US Agg Bond TR	Gold	Above Average	0.53	1986/02	10.32	6.77
Dodge & Cox Global Stock	DODWX	MSCI World NR	Gold	Above Average	0.63	2008/06	3.63	3.34
Dodge & Cox Income	DODIX	Barclays US Agg Bond TR	Gold	Average	0.43	1989/02	6.90	6.55
Dodge & Cox International Stock	DODFX	MSCI EAFE NR	Gold	Above Average	0.64	2001/06	6.77	4.27
Dodge & Cox Stock	DODGX	S&P 500 TR	Gold	Above Average	0.52	1992/02	11.07	9.15
Fidelity Balanced	FBALX	Morningstar Mod Tgt Risk TR	Bronze	Above Average	0.55	2008/10	8.90	6.89
Fidelity Contrafund	FCNTX	S&P 500 TR	Silver	Low	0.70	1990/10	13.06	10.07
Fidelity Leveraged Company Stock	FLVFX	S&P 500 TR	Bronze	Above Average	0.78	2003/08	10.94	8.23
Fidelity Low-Priced Stock	FLPSX	Russell 2000 TR	Silver	Below Average	0.79	1990/01	13.74	9.11
Fidelity New Millennium	FMLIX	S&P 500 TR	Bronze	Average	0.71	2006/08	8.84	7.46
Fidelity Puritan	FPURX	Morningstar Mod Tgt Risk TR	Bronze	Above Average	0.55	2003/09	7.35	6.94
Fidelity Total Bond	FTBFX	Barclays US Agg Bond TR	Gold	Above Average	0.45	2005/01	4.84	4.48
Franklin Mutual Quest	MQIFX	MSCI World NR	Silver	Average	0.79	2004/01	7.32	6.07
Harbor Capital Appreciation	HACAX	Russell 1000 Growth TR	Gold	Above Average	0.64	1990/06	10.29	8.84
Harbor International	HAINX	MSCI EAFE NR	Gold	Above Average	0.74	2009/03	11.80	10.57
Mairs & Power Balanced	MAPOX	Barclays US Govt/Credit TR	Silver	Average	0.73	2006/02	7.06	4.73
Perkins Mid Cap Value	JMCVX	Russell Mid Cap Value TR	Bronze	Low	0.69	1998/09	12.16	10.32
Perkins Small Cap Value	JSCVX	Russell 2000 Value TR	Silver	Low	0.81	1985/03	11.95	10.51
PRIMECAP Odyssey Aggressive Grwth	POAGX	S&P 500 TR	Gold	Above Average	0.62	2004/12	12.02	7.41
PRIMECAP Odyssey Growth	POGRX	S&P 500 TR	Gold	Above Average	0.64	2004/12	9.51	7.41
T. Rowe Price Blue Chip Growth	TRBCX	S&P 500 TR	Silver	Above Average	0.71	1993/07	10.05	9.07
T. Rowe Price Capital Appreciation	PRWCX	S&P 500 TR	Gold	Above Average	0.70	2006/07	8.85	7.46
T. Rowe Price Mid-Cap Growth	RPMGX	Russell Mid Cap Growth TR	Gold	Average	0.77	1992/07	13.57	9.78
Vanguard Capital Opportunity	VHCOX	Russell Mid Cap Growth TR	Gold	Above Average	0.45	1998/03	12.71	7.13
Vanguard Dividend Growth	VDIGX	Russell 1000 TR	Gold	Low	0.33	2006/03	8.73	7.26
Vanguard Equity-Income	VEIPX	Russell 1000 Value TR	Silver	Below Average	0.26	2004/01	8.33	7.26
Vanguard Health Care	VGHGX	MSCI ACWI/Health Care NR	Gold	Low	0.36	2008/06	13.90	10.39
Vanguard PRIMECAP Core	VPCCX	MSCI US Prime Market 750 GR	Gold	Below Average	0.47	2005/01	9.31	7.45
Vanguard PRIMECAP	VPMCX	S&P 500 TR	Gold	Below Average	0.40	1985/07	12.89	10.60
Vanguard Selected Value	VASVX	Russell Mid Cap Value TR	Gold	Below Average	0.39	1999/04	10.01	9.71
Vanguard Wellesley Income	VWINX	Barclays US Credit A+ TR	Gold	Low	0.23	2007/02	6.82	5.25
Vanguard Windsor II	VWNAX	Russell 1000 Value TR	Bronze	Average	0.26	2004/01	7.36	7.26
Vanguard Windsor	VWVNX	Russell 1000 Value TR	Bronze	Above Average	0.39	2008/07	8.43	7.83



the outside. Its expense ratio had bounced up to 0.62%, but now it is down to 0.59%, which gets it into the cheapest quintile and back into the Fantastic 48. The Silver-rated fund is in American's sweet spot as the team is adept at generating income without taking on too much risk. The fund has about 80% of assets in dividend-paying stocks and the rest in bonds and cash. Assets are rather evenly split between the U.S. and overseas markets. Seven of the fund's managers have committed more than \$1 million of their own money to the fund.

American Funds Global Balanced GBLAX

This fund makes the Fantastic 48 in its first year of eligibility. Launched in February 2011, the fund targets a 60/40 split of global stocks and global bonds. It is run by three balanced managers, one equity specialist, and two bond specialists. The balanced managers have latitude to adjust their bond/stock mix. So far, it has gone nicely as the fund has handily beaten peers and modestly beaten the MSCI All-Country World Index. It is already up to \$10 billion under management.

Baird Short-Term Bond BSBIX

This fund has a \$25,000 minimum for institutional shares, so I think it is worth including despite the fact that it calls itself institutional. Baird's M.O. is to have straightforward well-run funds that avoid big risks. While other bond managers are throwing in all manners of exotic exposures, this fund is plain-vanilla. If you want to avoid both credit and interest-rate risk, this is a good choice.

Diamond Hill Long-Short DIAMX

This fund is closed, so it can only go on your watchlist, not your buy list. The fund builds on the firm's strengths in constructing great long equity portfolios and adds a short portfolio that is essentially the least attractive stocks as measured by its bottom-up value process. We rate Diamond Hill's long portfolios Gold and this fund Bronze because the short side has not yet impressed us as much as the long side.

Fidelity Balanced FBALX

My secondary test of beating a category benchmark helped this fund get in. The Bronze-rated fund has an 8.9% annualized return compared with 6.9% for the

Morningstar Moderate Target Risk Index since October 2008 when the fund adopted a sector-specialist format headed by Bob Stansky. The fund keeps sector weightings in line with the S&P 500's so that the fund has predictable exposure and stock selection can shine through. That part has been decent but not great. It's the fixed-income side run by Ford O'Neil and Fred Hoff that we really like.

Fidelity Puritan FPURX

Fidelity Puritan also beat the Morningstar Moderate Target Risk benchmark, though its record goes back to September 2003 when Harley Lank started as manager of the fund's high-yield sleeve. But more importantly, it has beaten the index and peers since lead manager Ramin Arani came on board in February 2007. Arani picks growth stocks for the stock-heavy fund, and he sets the fund's allocation between stocks, high-quality bonds, and high-yield bonds. He's made winning calls with stock selection and asset allocation.

Mairs & Power Balanced MAPOX

This fund is back on the list after a one-year absence. The fund's expense ratio is right at the 20th percentile of its peer group, so it may forever be on the cusp of the Fantastic 48. Its returns, however, are well ahead of the category and prospectus benchmark since lead manager Ron Kaliebe was named comanager in January 2006. The strategy mixes stable-growing, dividend-paying equities with investment-grade bonds. It's really an old-school balanced fund that can provide a pretty steady ride throughout a variety of markets.

T. Rowe Price Capital Appreciation PRWCX

This fund is closed, too, but I know that quite a few *FundInvestor* readers got in before it closed. David Giroux has done a remarkable job of stock selection and asset allocation. He uses a blue-chip growth-at-a-reasonable-price strategy for equities and then uses a little bit of everything for fixed income. The bond side includes high-yield, investment-grade, bank loans, Treasuries, and convertibles in an attempt to generate returns without taking on extreme risk. And, wow, the fund's 8.9% annualized gain has beaten the Morningstar Moderate Target Risk Index's 5.7% since July 2006. ■■■