



## Q2 2007 Mutual Fund Performance in the Advisor Perspectives Universe (Part 2)

In part one of this series ([View Article](#)), we examined the performance of the most popular mutual funds in the largest accounts in the Advisor Perspectives (AP) universe ([View Data](#)). Our hypothesis was that RIAs, when choosing mutual funds for these large accounts, would select funds that would outperform relative benchmarks. The data from part one of this study examined the 25 most popular funds, based on these funds' market value in the AP universe, and showed the following:

- Funds, in general, outperformed their specific benchmarks. Of the 18 actively managed funds (i.e., excluding index funds and ETFs), 11 outperformed their specific benchmark.
- Actively managed funds ranked in the 47<sup>th</sup> percentile of their peer groups, based on a weighted average of each fund's ranking (weighted by the market value of the fund in the study)
- If an investor held a diversified portfolio of the taxable funds in this group, weighted by the funds' market values, the return would have been 5.46%, with a standard deviation of 8.96. Over the second quarter of this year, the S&P 500 returned 6.26% with a standard deviation of 7.39. Such a portfolio would have nearly half its assets in non-US securities.

In part two, we examine the performance of the 25 most popular funds (based on market value in the AP universe) in the largest accounts in each of four separate categories:

- US equities
- US taxable fixed income
- US municipal fixed income
- Foreign equities



We test the same hypothesis – Do RIAs pick superior performing mutual funds for their largest accounts? In this analysis, we examine how RIAs fare in picking funds in each of the above four categories. As with part one, this study encompasses a very short time period (one calendar quarter), and we will revisit this analysis over a number of subsequent time periods to see whether the results persist. In particular, we will watch to see if the top performing funds are consistent from quarter-to-quarter, which would provide an additional level of confidence in the results.

A summary of the data is presented in the two tables below:

	Weighted Average Market Return	Weighted Average Standard Deviation	Benchmark Return	Benchmark
US Equities	5.72	8.47	6.26	S&P 500 (VFIAX)
US Taxable Fixed Income	-0.14	2.73	-0.63	LB Aggregate (AGG)
US Municipals	-0.40	2.10	-0.98	LB Municipal
Foreign Equities	7.78	10.57	5.91	Developed Mkts (EFA)

	Weighted Average Market Return (Active Portion)	Weighted Average Standard Deviation (Active Portion)	Weighted Average Pct Rank in Category (Active Portion)	Weighted Average Return v. Primary Index (Active Portion)	Weighted Average Return v. Secndry Index (Active Portion)	# of Funds Beating Primary Index (Active Portion)
US Equities	5.61	8.10	43.31	-0.23	0.37	9/16
US Taxable Fixed Income	-0.08	2.65	56.05	0.28	0.30	12/22
US Municipals	-0.40	2.10	34.00	0.43	0.03	16/25
Foreign Equities	7.96	10.50	48.90	1.69	-1.79	16/22



The Active Portion of each group consists of the actively managed mutual funds, and excludes index funds and ETFs.

Based on this data, we conclude the following:

- RIAs are most adept at picking funds in the US Municipal and Foreign Equities markets. Of the 25 actively managed US Muni funds, 16 outperformed their primary benchmark (the LB Municipal index), and of the 22 actively managed Foreign Equity funds, 16 outperformed their primary benchmark (either the MSCI Developed or Emerging index, or – in one case – a Dow Jones global index). A weighted average of actively managed muni funds outperformed their primary benchmark by .43%, and a weighted average of actively managed Foreign Equity funds outperformed their primary benchmark by 1.69%. These funds do not have significantly more risk, as measured by standard deviation, in comparison to their benchmarks. The weighted average of US Muni funds were in the 34<sup>th</sup> percentile of their peer group, and the weighted average of Foreign Equity funds were in the 49<sup>th</sup> percentile.
- RIAs were less impressive in picking US Equity funds, where 9 of 16 actively traded funds outperformed their primary benchmark and a weighted average of these funds underperformed their primary index by .23%. These funds were in the 43<sup>rd</sup> percentile. The US equity funds as a whole (including actively managed funds, index funds, and ETFs) underperformed the S&P 500 by 275 basis points.

The above two findings are consistent with our earlier study ([View Article](#)) which showed that RIAs use mutual funds much more extensively in the non-US markets (as compared to the US markets) in the largest accounts in the AP universe. The corollary is that RIAs use separately managed accounts (SMAs) for US markets, and use mutual funds for US equities to fill in 'holes' where an appropriate manager cannot be found for a particular style box. The data above shows that actively managed US equity funds outperformed their secondary benchmark (which corresponds to a particular style box) by .37%. That is to say, US equity funds selected by RIAs do not outperform the broader US equity markets, but they do outperform the particular style box for which they are selected.

RIA usage of municipal bond funds is significantly greater than taxable bond funds (approximately \$362 million versus \$270 million for the funds used in this study). The greater focus on municipal bonds may explain the difference in fund performance in these categories. Actively traded US taxable fixed income funds performed in the 56<sup>th</sup> percentile, with 12



of 22 funds outperforming their primary benchmark. Taxable bond funds outperformed their primary benchmarks by .28% and their secondary benchmarks by .30%.

In summary, RIAs are exhibiting superior performance in mutual fund selection, particularly with US Municipal and Foreign equity funds, based on several criteria that look at risk-adjusted performance versus benchmarks. Performance in mutual fund selection for US equities shows that RIAs do not pick funds that outperform the overall market, but do pick funds that outperform their respective style box benchmarks.

**Table 1 – US Equities**

Ticker	Fund	Market Value	Market Return	% Rank in Category	Return v. Primary Index	Primary Index	Std Dev	Return v. Secondary Index	Secondary Index
SPY	S&P DEP RECEIPTS VANGUARD INDEX	\$113,047,625	6.39	29			7.38		
VFIAX	TRUST 500 INDEX FUND	\$69,140,407	6.26	43			7.39		
DODGX	DODGE AND COX STOCK FUND	\$55,118,892	5.41	70	-0.87	S&P 500 TR	7.46	-0.56	Lg Val
FRIAX	FRANKLIN TEMPLETON CUSTODIAN INCOME FUND	\$40,598,068	2.47	43	-2.40	Dow Jones Moderate Port	5.60	-0.92	DJ Mod Consumer
SRVEX	VICTORY DIVERSIFIED STOCK FUND	\$39,169,719	8.98	11	2.70	S&P 500 TR	8.51	2.38	Lg Core
AGTHX	GROWTH OF AMERICA FUND	\$34,690,181	7.71	24	1.43	S&P 500 TR	8.75	1.35	Lg Gr
JENIX	JENSEN FUND	\$31,939,298	5.13	95	-1.15	S&P 500 TR	6.94	-1.32	Lg Gr
TAVFX	THIRD AVENUE VALUE FUND	\$29,216,257	4.45	87	-1.83	S&P 500 TR	6.99	-2.53	Mid Core Russell
GATEX	GATEWAY FUND VANGUARD TOTAL STOCK MARKETS	\$29,191,167	3.16	30	-3.12	S&P 500 TR	2.78	-2.64	3000
VITSX	INDEX FUND	\$28,249,842	6.08	48			8.01		
ABALX	BALANCED FUND	\$26,545,877	5.02	15	0.42	Dow Jones	4.41		



Moderate Port

FEQIX	FIDELITY EQUITY INCOME FUND ISHARES TRUST RUSSELL 2000	\$26,533,767	7.31	15	1.02	S&P 500 TR	7.49	1.68	Lg Val
IWO	GROWTH ISHARES TRUST	\$26,354,537	6.64				15.32		
IWN	RUSSELL 2000 VALUE EXCELSIOR VALUE AND RESTRUCTURING FUND	\$25,978,688	2.26				11.98		
UMBIX	MARSICO 21ST CENTURY FUND	\$25,949,969	10.05	2	4.26	S&P 500 TR	10.74	4.92	Lg Val
MXXIX	JP MORGAN MID CAP VALUE FUND	\$25,084,578	10.32	5	4.46	S&P 500 TR	12.66	4.12	Lg Gr
FLMVX	FIDELITY MID CAP STOCK FUND	\$25,029,663	4.22	62	-1.52	S&P 500 TR	6.88	0.86	Mid Val
FMCSX	ISHARES TRUST RUSSELL 1000	\$20,059,178	7.67	61	1.46	S&P 500 TR	12.57	-1.52	Mid Gr
IWF	GROWTH ISHARES TRUST	\$18,888,409	6.81				8.94		
IWM	RUSSELL 2000 INDEX MELLON MID CAP	\$18,772,495	4.55				13.44		
MPMCX	STOCK FUND FIDELITY CONTRAFUND	\$18,447,954	7.33	53	1.84	S&P 500 TR	11.44	-1.14	Mid Gr
FCNTX	FUND ISHARES TRUST	\$18,313,782	7.50	23	1.84	S&P 500 TR	9.20	1.50	Lg Gr
IWD	RUSSELL 1000 VALUE	\$17,381,703	4.88				7.05		
MDY	MID CAP SPDRS FIDELITY REAL ESTATE	\$17,022,903	6.36				10.49		
FRESX	INVESTMENT FUND	\$16,667,654	-11.14	94	-15.40	S&P 500 TR	15.00	0.58	REIT



**Table 2 – US Taxable Fixed Income**

Ticker	Fund	Market Value	Market Return	% Rank in Category	Return v. Primary Index	Primary Index	Std Dev	Return v. Secondary Index	Secondary Index
PTRRX	PIMCO TOTAL RETURN FUND	\$63,720,873	-0.15	95	-0.51	LB Aggregate	3.00		
PTLAX	PIMCO LOW DURATION FUND	\$18,757,678	-0.42	81	0.57	LB Aggregate	1.47	-0.54	LB 1-5 yr Gov/Cor
VBMFX	VANGUARD TOTAL BOND MARKETS INDEX FUND	\$17,679,891	-0.66	41	-0.08	LB Aggregate	2.94	0.50	LB 1-5 yr Gov/Cor
JBSEX	JP MORGAN BOND FUND	\$12,275,242	-0.44	40	-0.08	LB Aggregate	2.66	0.50	LB 1-5 yr Gov/Cor
PTTAX	PIMCO TOTAL RETURN ADMINISTRATIVE FUND	\$11,653,119	-1.44	87	-0.57	LB Aggregate	3.00	0.01	LB 1-5 yr Gov/Cor
SWYSX	SCHWAB YIELD PLUS FUND	\$11,546,217	1.14	17	1.84	LB Aggregate	0.39		
LSBDX	LOOMIS SAYLES I BOND FUND	\$10,568,838	1.86	7	2.41	LB Aggregate	4.00	2.37	LB US Univ Bond
SDFIX	STANDISH FIXED INCOME FUND	\$10,373,208	-0.71	46	-0.13	LB Aggregate	2.73	0.45	LB 1-5 yr Gov/Cor
TRLVX	SEI INSTITUTIONAL MANAGED CORE FIXED INCOME FUND	\$9,165,869	-0.88	84	-0.54	LB Aggregate	2.77	0.04	LB 1-5 yr Gov/Cor
GCFIX	GOLDMAN SACHS CORE FIXED INCOME FUND	\$9,024,905	-0.28	18	-0.11	LB Aggregate	2.66	0.78	LB 5-10 yr Govt/Corp
DODIX	DODGE AND COX INCOME FUND	\$8,435,830	-0.24	13	0.29	LB Aggregate	2.08	0.87	LB 1-5 yr Gov/Cor
VFSTX	VANGUARD SHORT TERM INVESTMENT GRADE FUND	\$8,334,735	0.46	58	1.04	LB Aggregate	1.23	-0.07	LB 1-5 yr Gov/Cor
AGG	ISHARES TRUST LEHMAN AGGREGATE BOND	\$7,350,504	-0.63	29			2.89		
PHDAX	PIMCO HIGH YIELD FUND	\$6,795,150	-0.02	79	0.37	LB Aggregate	3.72		
OHYFX	JP MORGAN HIGH YIELD BOND FUND	\$6,710,228	1.06	12	1.52	LB Aggregate	3.62		
VIPSX	VANGUARD INFLATION PROTECTED SECURITIES FUND	\$6,231,083	-0.70	18	-0.02	LB Aggregate	4.06	-0.03	Lehman US Tsy Infl Note
HABDX	HARBOR BOND FUND	\$6,170,579	-1.33	82	-0.48	LB Aggregate	3.07	0.10	LB 1-5 yr Gov/Cor
AHITX	AMERICAN HIGH INCOME TRUST FUND	\$6,128,848	0.98	8	1.63	LB Aggregate	3.66		
VFIIX	VANGUARD GOVERNMENT NATIONAL MORTGAGE ASSOCIATION FUND	\$6,117,613	-0.66	58	-0.29	LB Aggregate	2.28	-0.58	LB Government
IEF	ISHARESLEHMAN 7 10 YEAR	\$6,000,423	-1.35				4.56		



NEFZX	LOOMIS SAYLES STRATEGIC INCOME TRUST II FUND	\$5,634,385	1.90	6	2.45	LB Aggregate	4.28	2.41	LB Univ. Bond LB 5-10 yr
ABNDX	BOND OF AMERICAN FUND VANGUARD INTERMEDIATE TERM	\$5,561,217	-0.26	10	0.36	LB Aggregate	2.42	0.94	Govt/Corp
VBII	BOND INDEX FUND	\$5,525,150	-1.02	84			3.96		
DFIHX	DFA ONE YEAR FIXED INCOME FUND	\$5,385,592	1.28	1	2.22	LB Aggregate	0.61		
FSHBX	FIDELITY SHORT TERM BOND FUND	\$5,027,697	0.28	55	1.08	LB Aggregate	1.07	-0.03	LB 1-5 yr Gov/Cor

**Table 3 – US Municipal Fixed Income**

Ticker	Fund	Market Value	Market Return	% Rank in Category	Return v. Primary Index	Primary Index	Std Dev	Return v. Secondary Index	Secondary Index
VSITX	JP MORGAN INTERMEDIATE TAX FREE FUND	\$151,351,845	-0.47	21	0.51	LB Municipal	2.26	0.15	LB Muni 10 yr
VMLTX	VANGUARD LIMITED TERM TAX EXEMPT FUND	\$39,220,396	0.20	23	1.10	LB Municipal	1.13	-0.06	LB Muni 3 yr
NHMAX	NUVEEN HIGH YIELD MUNICIPALS BOND FUND	\$35,673,031	-0.67	78	0.31	LB Municipal	2.41	-0.48	LB Muni 10 yr
ACTHX	VANKAMPEN HIGH YIELD MUNICIPALS FUND	\$17,436,459	-0.09	21	0.45	LB Municipal	2.20	0.43	LB Muni 10 yr
VWITX	VANGUARD INTERMEDIATE TERM TAX EXEMPT FUND	\$14,047,247	-0.56	28	0.12	LB Municipal	2.51	0.10	LB Muni 10 yr
PAAIX	PIMCO ALL ASSET FUND	\$12,517,866	-1.66	78	-0.97	LB Municipal	2.28	-0.29	Citi Non-\$ Wld Gov
SNDPX	SANFORD BERNSTEIN DIVERSIFIED MUNICIPALS FUND	\$12,435,624	-0.39	9	0.29	LB Municipal	1.89	0.27	LB Muni 10 yr
LTMIX	THORNBURG INVESTORS TRUST LIMITED TERM MUNICIPALS FUND	\$11,022,468	0.03	81	0.47	LB Municipal	1.45	-0.43	LB Muni 3 yr
VMPAX	EVERGREEN STRATEGIC MUNICIPALS BOND FUND	\$10,072,139	0.60	21	1.13	LB Municipal	0.52	0.23	LB Muni 3 yr
VNYTX	VANGUARD NEW YORK LONG TERM TAX EXEMPT FUND	\$8,681,148	-0.87	85	-0.35	LB Municipal	3.49	-0.49	LB Muni NY
VWSTX	VANGUARD SHORT TERM TAX EXEMPT FUND	\$6,840,373	0.66	14	1.26	LB Municipal	0.50	0.36	LB Muni 3 yr
VMATX	VANGUARD MASSACHUSETTS TAX	\$6,583,324	-0.93	67	-0.31	LB Municipal	3.24	-0.33	LB Muni 10 yr



EXEMPT FUND									
SNNYX	SANFORD BERNSTEIN NEW YORK MUNICIPALS FUND	\$4,947,173	-0.31	14	0.30	LB Municipal	2.00	0.16	LB Muni NY
HLTX	JP MORGAN MUNICIPALS INCOME FUND	\$4,136,661	-0.52	31	0.33	LB Municipal	2.24	0.31	LB Muni 10 yr
SEIMX	SEI TAX EXEMPT TRUST INTERMEDIATE MUNICIPALS FUND	\$3,368,104	-0.66		-0.03	LB Municipal	2.34	-0.05	LB Muni 10 yr
VCAIX	VANGUARD CALIFORNIA INTERMEDIATE TERM TAX EXEMPT FUND	\$3,018,897	-0.48	51	0.14	LB Municipal	2.44	0.23	LB Muni CA
SCMTX	DWS TAX FREE TRUST INTERMEDIATE TAX AMT FREE FUND	\$2,995,417	-0.34	20	0.19	LB Municipal	2.43	0.17	LB Muni 10 yr
SCMBX	DWS MUNICIPALS TRUST MANAGED MUNICIPALS BOND FUND	\$2,779,578	-0.55	24	-0.02	LB Municipal	2.47	0.33	LB Muni 20 yr
VWAHX	VANGUARD HIGH YIELD TAX EXEMPT FUND	\$2,764,750	-0.62	65	-0.09	LB Municipal	2.68	-0.11	LB Muni 10 yr
JNYIX	JP MORGAN NEW YORK TAX FREE BOND FUND	\$2,606,437	-0.43	11	0.54	LB Municipal	2.36	0.40	LB Muni NY
SDCSX	DWS STATE TAX FREE INCOME CALIFORNIA TAX FREE INCOME FUND	\$2,494,676	-0.65	14	0.01	LB Municipal	2.73	0.10	LB Muni CA
MPMFX	MORGAN STANLEY INSTITUTIONAL MUNICIPALS FUND	\$1,695,429	-0.24	12	0.26	LB Municipal	1.98	0.24	LB Muni 10 yr
SRHMX	COLUMBIA SERIES TRUST I HIGH YIELD MUNICIPALS FUND	\$1,686,640	-0.42	61	-0.08	LB Municipal	2.04	-0.10	LB Muni 10 yr
ETCTX	EATON VANCE CONNECTICUT MUNICIPALS FUND	\$1,578,963	-0.86	62	-0.24	LB Municipal	2.58	0.11	LB Muni 20 yr
EANAX	EATON VANCE NATIONAL MUNICIPALS FUND	\$1,570,995	-1.10	93	-0.67	LB Municipal	2.97	-0.32	LB Muni 20 yr

**Table 4 – Foreign Equities**

Ticker	Fund	Market Value	Market Return	% Rank in Category	Return v. Primary Index	Primary Index	Std Dev	Return v. Secondary Index	Secondary Index
EFA	ISHARES TRUST TRUST MSCI EAFE INDEX FUND	\$216,691,713	5.91				9.30		
DODFX	DODGE AND COX INTERNATIONAL STOCK FUND	\$123,969,214	6.65	55	0.25	MSCI EAFE NDTR_D	10.09	-1.84	MSCI Wd xUS



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AEGBX	AMERICAN EUROPACIFIC GROWTH FUND	\$86,617,730	8.43	16	1.82	MSCI EAFE NDTR_E	13.28	0.46	MSCI Wd xUS
BJBIX	JULIUS BAER INTERNATIONAL EQUITY FUND	\$73,846,344	8.82	8	2.42	MSCI EAFE NDTR_E	11.56	0.73	MSCI Wd xUS
MACSX	MATTHEWS ASIAN GROWTH AND INCOME FUND	\$62,097,622	8.89	99	2.49	MSCI EAFE NDTR_E	8.99	-9.67	MSCI ACFE ex Japan
FESOX	FIRST EAGLE SOGEN OVERSEAS FUND	\$58,125,408	3.76	82	-2.64	MSCI EAFE NDTR_D	7.15	-3.47	MSCI Wd xUS
EEM	ISHARES TRUST MSCI EMIF	\$50,728,041	13.00				17.31		
FDIVX	FIDELITY DIVERSIFIED INTERNATIONAL FUND	\$39,190,113	7.77	28	1.37	MSCI EAFE NDTR_D	10.20	-0.53	MSCI Wd xUS
ARTIX	ARTISAN INTERNATIONAL FUND	\$32,473,169	5.53	84	-0.87	MSCI EAFE NDTR_D	10.10	-3.08	MSCI Wd xUS
SGIIX	FIRST EAGLE SOGEN GLOBAL FUND	\$32,253,343	4.55	32	-0.44	Dow Jones Mod Port	6.29	-2.43	MSCI EAFE NDTR_D
MAPTX	MATTHEWS PACIFIC TIGER INTERNATIONAL FUND	\$31,294,376	16.69	87	10.24	MSCI EAFE NDTR_D	13.88	-2.35	MSCI ACFE ex Japan
JFEIX	JP MORGAN INTREPID EUROPEAN FUND	\$29,439,044	9.23	10	2.46	MSCI EAFE NDTR_D	10.82	1.34	MSCI Euro NDTR_D
OAKEX	OAKMARK INTERNATIONAL SMALL CAP FUND	\$28,601,338	2.52	97	-4.54	MSCI EAFE NDTR_D	9.61	-6.35	MSCI Wd xUSN
SNIVX	SANFORD C BERNSTEIN BERNSTEIN TAX MANAGED INTERNATIONAL VALUE FUND	\$26,447,111	6.63	60	0.06	MSCI EAFE NDTR_D	9.74	-1.75	MSCI Wd xUSN
TBGVX	TWEEDY BROWNE GLOBAL VALUE FUND	\$24,224,532	5.94	76	-0.87	MSCI EAFE NDTR_D	7.04	-2.68	MSCI Wd xUSN
VGTSX	VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	\$23,575,330	7.79				10.05		
TGVAX	THORNBURG INTERNATIONAL VALUE FUND	\$23,349,357	12.23	1	7.15	MSCI EAFE NDTR_D	9.65	5.34	MSCI Wd xUSN
NIIVX	ING INTERNATIONAL VALUE FUND	\$17,571,558	4.87	89	-2.28	MSCI EAFE NDTR_D	9.69	-4.09	MSCI Wd xUSN
SSEMXX	SSGA EMERGING MARKETS FUND	\$17,562,964	15.70	22	12.00	MSCI EAFE NDTR_D	17.30	0.65	MSCI EM ID
HAINX	HARBOR INTERNATIONAL FUND	\$16,420,489	10.29	8	3.12	MSCI EAFE NDTR_D	11.08	1.31	MSCI Wd xUSN
NAIGX	NUVEEN TRADEWINDS INTERNATIONAL VALUE FUND	\$14,722,420	5.99	54	0.03	MSCI EAFE NDTR_D	9.74	-1.78	MSCI Wd xUSN
FEMKX	FIDELITY EMERGING MARKETS FUND	\$14,126,451	15.59	28	11.54	MSCI EAFE NDTR_D	17.91	0.19	MSCI EM ID
CWGIX	CAPITAL WORLD GROWTH AND	\$10,717,609	8.87	23	2.08	MSCI EAFE NDTR_D	8.23	0.84	MSCI World NDTR_D



INCOME FUND									
HLEMX	HARDING LOEVNER EMERGING MARKETS FUND	\$10,290,555	12.80	78	8.16	MSCI EAFE NDTR_D	16.60	-3.19	MSCI EM ID
TAVIX	THIRD AVENUE INTERNATIONAL VALUE FUND	\$10,119,080	8.89	18	4.33	MSCI EAFE NDTR_D	7.50	2.52	MSCI Wd xUSN

**Notes:**

1. The ticker symbols shown in these Tables may differ from those shown on the Advisor Perspectives web site. The symbols shown above were based on the most appropriate share class for this study. The Advisor Perspectives web site shows holdings consolidated across all share classes. The ticker symbol shown on the web site is the first one alphabetically for the fund.
2. All return data in the above tables was obtained from Morningstar.
3. Standard deviation, a measure of volatility, is computed based on three years of return history. Those funds not reporting a standard deviation do not have sufficient history for this computation.
4. Weighted average returns and standard deviations are computed using the market values of the funds as their weighting factors.

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