

# MUTUAL FUND ANALYSIS ON-LINE:

## KEY QUESTIONS, QUICK ANSWERS

By John Markese

Independent mutual fund Web sites storehouse and update information for all funds, making comparisons quick and comprehensive. This is the Web at its best—free, quick, and accurate. What should you be looking for? Data checkpoints for on-line evaluations.

The Internet was built for speed, whether accessing or updating information. That makes it tailor-made for mutual fund investors.

When comparing mutual funds from different families, a Web site that storehouses and updates information for all funds makes the comparisons quick and comprehensive. These independent sites also offer many more analysis tools and data than the individual fund sites, which are primarily focused on the information found in the fund prospectus and annual report—and they are all free.

### COMPARING THE SITES

Five broad-based, free on-line mutual fund analysis sites, along with their Web addresses, are found in the box on page 6.

All of these sites offer extensive performance statistics, usually at minimum year-to-date, one-year, three-year, and five-year returns. Some quote year-by-year returns in addition and also returns for benchmarks, such as category and index comparisons. Summary return statistics are also readily available from other sources, including newspapers and the funds themselves.

Table 1 provides data checkpoints that mutual fund investors should examine when evaluating funds. These are checkpoints that are important to your mutual fund selection and the management of your portfolio, and they are not easily found or even available from other sources.

The table does not go into detail concerning return data because of its wide availability and since all these sites provide adequate return information. The table instead focuses on fund analysis beyond return numbers.

Table 1 includes data checkpoints for all funds, plus additional checkpoints for international stock funds and bond funds. The additional data checkpoints for international stocks include country and regional breakdowns, important considerations for international investors. Additional data checkpoints for bond funds include information specific to bond funds, such as average credit rating, average maturity, and average yield.

### WHAT THE FUND CONTAINS

The first data checkpoint in Table 1 is asset allocation—the percentage of the total fund's market value that is invested in each broad asset category—cash, stocks, or bonds. The best sites will break down stocks and bonds into domestic and foreign parts. This data checkpoint is important because if you “hire” a mutual fund to manage your assets, you expect them to remain invested in a particular way. For example, if you are invested in a stock fund, a large cash position held by the fund, 5% or more, is a sign for concern. Large cash holdings might signal market timing or a large influx of cash that has yet to be digested—both problems for investors who are expecting their stock fund to be invested in stocks and perform well.

Top holdings lists the specific stocks or bonds held in the portfolio, along with, at a minimum, the percentage of net assets each holding represents. Some Web sites list the top five holdings, others list up to the top 25. Other

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statistics that may accompany these lists are the year-to-date returns for each holding, and whether the position is new, increased, or decreased since the last reporting period. This data checkpoint should be used to see whether the fund is investing in what you think it is, to make sure you are really diversified and invested in a way that is appropriate to your goals.

Relying only on a fund name to discern what's in the fund's portfolio can be misleading. Often investors assume that the different funds they are invested in are managed differently, when in fact a look at the holdings would indicate that they hold the same or similar investments. You can use this section to help determine, for instance, whether your fund is holding small stocks, large stocks, growth stocks, value stocks, or some mix. A few sites offer summary value/growth

and capitalization information that is an even quicker read.

The sector allocation breakdowns answer the question of how diversified a fund is by industry. This data checkpoint can help you determine if the fund you're considering is really a hidden sector fund, with stocks concentrated in only one or a few closely related industries, situations commonly found in the aggressive growth fund category. Sector funds and hidden sector funds are riskier, less diversified, and potentially more volatile. Sector holdings are reported as a percentage of fund value. You can also check the top holdings lists for sector information—some top holdings lists will report the sector of a particular stock or bond.

### A LOOK AT RISK

Glance at any site on your computer screen and your eye is usually

drawn first to returns. But you should force yourself to stare at risk measures for more than a passing moment.

Many of the sites offer detailed measures of risk—some esoteric, some basic. The question to be answered, however, is how volatile the returns on a fund are likely to be, both absolutely and compared to similar funds and market benchmarks. The greater the risks you take, the better the returns should be.

Here is a primer on the risk statistics you can access.

- **Standard deviation**—A measure of total absolute volatility of a fund's return no matter what the source. The larger the number, the greater the risk. This figure should be compared against other funds and an index benchmark, if possible.
- **Beta**—A measure of relative volatility of return compared to a

**TABLE 1. MUTUAL FUND ANALYSIS ON-LINE: WHO OFFERS WHAT**

	Morningstar.com	MSN.com	Quicken.com	Quote.com	SmartMoney.com
<b>Data Checkpoints for All Funds</b>					
Asset Allocation	X	X	X	X	X
Top Holdings	X	X	X*	X*	X
Sector Allocation	X	X	X	X	X
<b>Risk Measures:</b>					
Standard Deviation	X	X	X		X
Beta	X	X	X	X	X
Alpha	X	X	X		X
R <sup>2</sup>	X	X			X
Sharpe Ratio	X	X	X		X
Competition			X		X
<b>Additional International Stock Fund Checkpoints</b>					
Country Breakdown	X				
Regional Breakdown	X				
<b>Additional Bond Fund Checkpoints</b>					
Weighted Average Maturity	X		X		X
Duration	X		X		X
Average Credit Rating	X		X		X
Distribution of Credit Ratings	X		X	X	
Yield	X			X	X

\*Site does not give top holdings for bond funds

benchmark. A beta of 1.00 means the volatility of the fund is equal to the volatility of the benchmark; for example, a 0.50 beta would be half as volatile as the benchmark, and a 1.50 beta would be 50% more volatile. This risk measure looks only at market risk and is useful only for well-diversified stock funds, not sector funds.

- **Alpha**—A measure of the fund return above or below what the fund should have achieved given its risk level. Positive alphas are good, negative alphas are bad.
- **R<sup>2</sup>**—A measure of return correlation with the overall market or some relevant benchmark. R<sup>2</sup> can range from zero to 100, and it reveals the percentage of the total return variation that is explained by movements in the overall market. A high R<sup>2</sup> implies that a fund is well-diversified and the beta risk measure is therefore meaningful; a low R<sup>2</sup> indicates a sector fund or a concentrated fund and its beta is likely to be less meaningful.

- **Sharpe Ratio**—This ratio measures the return relative to risk, as indicated by the standard deviation; the higher, the better. The Sharpe Ratio is most useful when it is compared to other funds in the same category or some broad-based benchmark index.

Pick your risk measures, but no matter what, you need to gain an intuitive feel for how risky your fund is compared to other funds and the overall stock or bond market.

### THE COMPETITION

If you are evaluating a fund, it's always useful to know the competition—what are the best alternatives in the same category?

Only two sites offer this feature, Quicken.com and SmartMoney.com, but it is a valuable tool for selecting or monitoring your fund. Keep in mind, though, that the competitors might be ranked solely by return, so before you consider jumping ship for the competition, make sure that you review their risk profiles.

### INTERNATIONAL STOCK FUNDS

International stock fund investors will find all the information discussed to this point helpful in evaluating a fund. However, two additional checkpoints are invaluable for evaluating these particular types of funds: a country breakdown of portfolio holdings, and a regional breakdown.

A fund may call itself “international,” but this term reveals very little about where the money will be invested, other than it will be invested outside of the U.S. Without a detailed breakdown country-by-country, and region-by-region, it is impossible to determine just what is considered “international” to a specific fund. And as with domestic funds, it is important for diversification purposes to understand the geographic distribution of a fund's holdings. What is the mix of stocks in Europe, Asia, Latin America, emerging nations? Also, within Latin America, for example, what

### Where to Surf On-Line for Mutual Fund Analysis

Morningstar.com

[www.morningstar.com](http://www.morningstar.com)

This Web site gives an initial “quicktake” report on a mutual fund. The user can then look into areas such as Total Returns, Ratings & Risk, Portfolio, or Nuts & Bolts to get a more in-depth analysis of the fund.

MSN.com (MSN Money Central Investor)

[moneycentral.msn.com/investor](http://moneycentral.msn.com/investor)

The MSN MoneyCentral Investor quotes area provides basic fund information such as net asset value and percent change, along with Morningstar ratings on risk and return. The Fund Overview gives more detailed information. There is also a link to download the fund's prospectus

Quicken.com

[www.quicken.com](http://www.quicken.com)

Quicken offers a quick quote and a full quote on a fund.

The quick quote gives the last trading price, bid price, ask price, and volume traded. The full quote gives daily performance, long-term performance, Morningstar risk and return ratings, and key fund facts.

Quote.com

[www.quote.com](http://www.quote.com)

This Web site gives a delayed quote and a percentage change in net asset value, along with the 52-week high and low for a fund. The site also provides charts, a Lipper Report, a Morningstar Report, and news.

SmartMoney.com

[www.smartmoney.com](http://www.smartmoney.com)

SmartMoney initially provides the user with a fund snapshot, which includes fund statistics, holdings, growth, and returns. The user can then access more details including risk measures and portfolio breakdown.

percentage of the portfolio value is invested in Chile or Brazil?

Unfortunately, only one source, Morningstar.com, provides this information for international funds. But, an international fund's annual report is your fallback for this information.

## BOND FUND CHECKPOINTS

An evaluation of a bond fund requires all the information noted above, plus some unique, bond-specific statistics.

First, maturity is a determinant of both return and risk. Usually, the greater the maturity, the greater the return, and the greater the volatility of return as interest rate levels change in the bond market. Return includes both yield, the income received on the bond, and capital gains, changes in the price of the bond in response to bond market interest rate changes.

Duration is another measure of bond fund return volatility that not only includes maturity, but also mathematically incorporates the impact of the income produced by the bonds in the fund. The higher the duration number, the greater the exposure of the bond fund to interest rate risk—bonds drop in price when interest rates rise, and rise in price when rates fall, and the

response is magnified at greater average maturities and lower average bond interest income levels.

A second type of risk for bonds is credit risk, either bonds defaulting or dropping down the credit rating scale and the resulting drops in bond price. The average credit rating will give an indication of credit risk; the closer the average is to AAA, the less the risk for corporate and municipal bonds. U.S. government bonds have no credit risk, and therefore no credit rating. But average credit rating might hide a significant problem: low-rated bonds that are offset by bonds with higher ratings but still pose substantial risk.

A distribution of credit ratings will give you a quick overview of the credit risk of the bond portfolio. Bonds rated below BBB, the lowest investment-quality grade, are more susceptible to default risk. A junk bond fund would have a low average credit rating for its bonds and a distribution bulging below BBB.

Finally, yield—the income received on the portfolio relative to the value of the portfolio—is the reason most investors seek bonds funds. But if you find a bond fund with significantly greater yield than its competitors, you can bet it has either a lower average credit rating, more bonds below investment grade, a

longer maturity, a longer duration, or some combination of these higher risk factors.

## OTHER FEATURES

There are plenty of unique features on these sites. Smartmoney.com has an overlap meter that will determine how much the top holdings of two funds overlap.

What about a fat fund meter? It tells you if the fund is too asset-fat for its own good. This is particularly important for small-capitalization stock funds, since it can be cumbersome for a portfolio manager to maneuver a large fund in the small-cap market.

What's a hot money index? This meter will tell you if a fund is likely to attract hot money that the management may have a hard time handling, not to mention the additional trading and tax costs involved.

The best of these sites in terms of depth and usefulness of mutual fund information? Morningstar.com, Smartmoney.com, and Quicken.com are, in that order, the best.

Take some time and surf all of the sites; each has some unique features. This is the Web at its best—free, quick, and accurate fund information. That eliminates all your excuses to not visit. ♦

# AAll.com

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  - Download a spreadsheet with expanded fund data.