

MUTUAL FUNDS

Risk and Performance Analysis
for Decision Making

John A. Haslem
Robert H. Smith School of Business
University of Maryland

MHOCHSCHULE
• LIECHTENSTEIN
Bibliothek

 **Blackwell**
Publishing

CONTENTS

<i>List of figures</i>	x
<i>Preface</i>	xi
<i>Acknowledgments</i>	xiii
1 Understanding Mutual Funds	1
Mutual Funds as Financial Intermediaries	2
Investment Companies and Unit Investment Trusts	3
The 1940 Act and Regulation of Investment Companies	4
Investment Companies and Unit Investment Trusts: Characteristics	11
Investment Companies: A Historical Note	13
Mutual Funds as Organizations	16
2 Mutual Fund Service Advantages	23
Diversification	25
Portfolio Theory and Risk: A Note	27
Constrained Attainable Global Diversification	29
Investment Objectives	31
Mutual Fund Shareholder, Liquidity	38
Shareholder Transaction Costs	41
Shareholder Services	50
3 Mutual Fund Service Advantages: Professional Management	58
Resources and Performance of Portfolio Management	59

vi CONTENTS

Professional Management	59
Portfolio Manager Background	80
4 Mutual Fund Service Disadvantages	84
Limited Types of Assets	86
Mutual Fund Trading Costs	88
Shareholder Tax Planning	102
Regulatory Issues	112
Assessing Fund Disclosure .	128
5 Mutual Fund Service Disadvantages: Expenses	130
Mutual Funds Expenses: Nature and Pros and Cons	131
Mutual Fund Attributes and Portfolio Manager Background	144
6 Long-term Investing in Mutual Funds and Stock/Bond Portfolio Allocations	
Long-term Equity Investing	
Market Timing versus Buy-and-hold Strategies	
Time Diversification	
Investor Risk Preferences: Theory	
Investor Risk Preferences: Behavioral	
Investment Policy and Investment Management	
Investment Risk	
Investor Risk Preferences: Applied	
Portfolio Investment Objectives and the Cash Bucket	
Passive Portfolio Allocation	
Passive Asset Allocation: Stock versus Bonds	
Passive Asset Allocation: Portfolio Rebalancing	
Passive Portfolio Allocation: Bonds	
Active Portfolio Allocation: Market Timing Revisited	
Passive Investment Allocation: Model Portfolios	
The (Financial) Engine that Could	

7 Portfolio Diversification Risk and Equity Style Allocation	194
Diversification Constraints Concept	195
Classification of Mutual Funds	195
Equity Style Allocation and Style Analysis *-	197
Degree of Constrained Diversification and Risk	202
Morningstar Category and Investment Style Boxes	206
Morningstar Star Ratings and Category Ratings •	211
Mutual Fund Risk	212
Fundamental Analysis: Value versus Growth Investment Styles	214
Morningstar Mutual Fund Reports	220
Diversification Risk: Value versus Growth	221
Diversification Constraints and Risk Data: Vanguard Windsor II, Category Peers, and Market Index	226
Diversification Risk: Value/Growth Investment Style •	226
Diversification Risk: Cash Asset Allocation	229
Diversification Risk: Market Liquidity	234
Diversification Risk: Returns Distribution	239
Diversification Risk: Industry Sector Concentration	240
Diversification Risk: Security Concentration	241
Diversification Risk: Value Line Safety and Timeliness	242
Diversification Risk: Overall Assessment	244
8 Mutual Fund Performance Measures and Buy/Sell Decision Criteria	245
CDA Annualized Rates of Return	246
CDA Performance Measures	247
Computed Risk/Return Performance Measures	250
CDA Returns, Performance Measures, and Computed Risk/Return Performance Measures	257
Morningstar Rating and Risk and Return Performance Measures	258
Buy/Sell Decision Criteria	259

9 Mutual Fund Performance and Portfolio Investment Style	
Allocations	262
Market Anomalies	263
Performance: Value versus Growth Stocks	264
Performance: Small-cap, versus Large-cap. Stocks	270
Tweedy Browne on Value and Small-cap. Investing	272
Performance: Large Funds versus Small Funds	273
Performance: Domestic Stocks versus International Stocks	275
Bond Mutual Funds	281
Issues in Stock and Bond Fund Performance: Indexing	289
Recommended Portfolio Allocations	298
Bond and Stock Fund Recommendations: Simple is Good	299
10 Actively Managed versus Passively Managed Funds: the Search for Managers	302
Fund Performance and Portfolio Manager Attributes	302
Mutual Fund Selection and Tiebreakers	304
Superstars Redux	307
Actively Managed versus Index Funds	308
Can Actively Managed Money Beat the Market? by Russ Wermers	311
Mutual Fund Performance: Selected Issues	316
11 Mutual Funds: the Next Generation	332
Mutual Funds since the 1990s	333
Nature of Exchange-traded Funds (ETFs)	338
Major Exchange-traded Funds	344
Current and Future Developments	349
Implications for Mutual Funds	350
12 Economic and Market Indicators: Knowledge, not Faith	352
Implementing the Buy/Sell Decision	353
Economic Indicators: Discussion and Sample Menu	356

Market Indicators: Discussion and Sample Menu	369
Final Comment	382
Appendix: Online References to Mutual Fund and Related Information	384
<i>Tables</i> •	387
<i>Glossary</i> •	491
<i>References</i>	505
<i>Index</i>	564