

BusinessWeek

OCTOBER 7, 2002

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

The Mutual Fund Agony Goes On and On

BY MARA
DER HOVANESIAN

It looks as if mutual fund investors can kiss another year good-bye. Barring an improbable reversal in the stock market by yearend, the fund business will rack up its worst three-year record in a half-century. Of the 32 stock-fund categories Standard & Poor's tracks, only the three smallest—those betting that stocks will fall or investing in gold and real estate—have made money this year. The unfor-giving market has even dethroned value managers—a level-headed lot with a taste for cheap, slow-growing companies—who had once reigned

in the post-bull market. Even the safest bond funds are losing steam. And little seems to point to a turnaround anytime soon.

This bear market has defeated professional stockpickers of all persuasions. So far this year, the Dow Jones industrial average has lost 20.3%, and the Standard & Poor's 500-stock index has shed 26.4%. Fund managers haven't done much better: The average U.S. diversified-equity fund has lost 25% this year; more than half of it in the three months through Sept. 20. Some sector funds, including technology, utility, and financial

services, fared worse in the third quarter, falling between 15% and 22%, making for 28% to 48% losses so far this year. Foreign stocks were no refuge: Funds investing in them lost 17.6% in the past three months. "Everyone who has been trying to catch the bottom of this market has been smoked," says John Lekas, president of Leader Capital, an investment firm in Portland, Ore.

Lekas, whose high-minimum Technical Portfolio Management fund is up 16%, is one of an elite group of equity-fund managers to make money this year. Once a close watcher of balance sheets, he now either takes short positions in stocks based on technical indicators—such as 200-day moving averages of prices or ratios of sell orders to buy orders—or he's fully in cash. Lekas embraced this investing religion two years ago, after losing faith in Corporate America—and 30% of his clients' money. The trigger: One of his favorites, Corning, cut its 2000 earnings-per-share forecast five times, to 20¢ from \$2.20. "You need to know when to say you're not going down with the ship," he says. "Those are damned hard decisions to make because you're already looking at red ink."

Conservative strategies will likely continue to perform best, so investors

The Best Mutual Funds...

FUND	TOTAL RETURN*	FUND	TOTAL RETURN*
PROFUNDS ULTRABEAR INV.	25.23%	PRUDENT BEAR SAFE HARBOR	3.95%
RYDEX DYNAMIC TEMPEST 500	24.60	HUSSMAN STRATEGIC GROWTH	3.60
COMSTOCK CAPITAL VALUE A	23.34	INVESCO GOLD & PRECIOUS METALS INV.	3.57
RYDEX DYNAMIC VENTURE 100	21.46	SCUDDER TARGET 2011	3.50
PROFUNDS ULTRASHORT OTC INV.	20.83	TOCQUEVILLE GOLD	3.47
POTOMAC SMALL CAP SHORT	16.74	AMERICAN EAGLE LARGE CAP GROWTH	3.31
PRUDENT BEAR	16.12	SCUDDER RETIREMENT VII	3.30
RYDEX ARKTOS INV.	13.78	AXA ROSENBERG SEL. SECTORS MKT. NEUTRAL INV.	3.26
PROFUNDS BEAR INV.	13.76	RYDEX PRECIOUS METALS	3.21
RYDEX URSA	13.63	ING PRINCIPAL PROTECTION Q	3.06
MIDAS	12.59	USAA PRECIOUS METALS & MINERALS	3.06
POTOMAC OTO SHORT	12.35	JAMES ADVANTAGE MARKET NEUTRAL A	2.59
POTOMAC U.S. SHORT	11.83	SCUDDER TARGET EQUITY 2012	2.10
MONTEREY OCM GOLD	10.86	VAN ECK INTL. INVESTORS GOLD A	2.07
LEUTHOLD GRIZZLY SHORT	10.32	SCUDDER GOLD & PRECIOUS METALS S	2.03
OPPENHEIMER REAL ASSET A	10.05	PERMANENT PORTFOLIO	1.98
AXA ROSENBERG VALUE MARKET NEUT. INV.	9.63	ING CLASSIC PRINCIPAL PROTECTION 2 A	1.88
PHOENIX-CAPITAL WEST MARKET NEUTRAL A	6.52	EXETER DEFENSIVE A	1.79
GABELLI GOLD	5.60	LINDNER MARKET NEUTRAL INV.	1.53
ING PRECIOUS METALS	4.91	ING CLASSIC PRINCIPAL PROTECTION 1 A	1.44
AMERICAN CENTURY GLOBAL GOLD ADV.	4.59	FIFTH THIRD STRATEGIC INCOME INSTL.	1.41
FIRST EAGLE SOGEN GOLD	4.53	FRANKLIN U.S. LONG SHORT	1.31
FIDELITY SELECT GOLD	4.40	EVERGREEN PRECIOUS METALS I	1.28
JUNDT OPPORTUNITY A	4.31	JUNDT GROWTH A	1.07
SCUDDER TARGET 2010	3.99	FEDERATED MANAGED INCOME INSTL.	0.45

*Appreciation plus reinvestment of dividends and capital gains before taxes, July 1 through Sept. 20, 2002
Data: Standard & Poor's