

In the Press

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Funds That Play the Field

All-caps have their pick of equities, and are beating more focused peers.

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For nearly two decades, equity mutual funds have been boxed in. That's because marketers have been packaging funds by investment styles such as small-cap value or large-cap growth at the behest of pension consultants and financial advisers who want to fine-tune their asset allocations.

Yet a small group of funds can pick and choose securities from all corners of the equity universe. Now these funds, which are called all-cap funds, are outperforming their style-specific peers and attracting attention from both individual and institutional investors. "People are looking outside the box," says Don Cassidy, senior research analyst at Lipper, the fund-tracking unit of Reuters.

The numbers are compelling. All-cap funds, also known as multi-cap or go-anywhere funds, beat their U.S. diversified-equity peers during the one-, three-, five-, and 10-year periods ending Jan. 31, 2006, according to Lipper. The outperformance is most drastic in the 12 months ended on Jan. 31, when all-cap funds gained an annualized 16.9% vs. 14.4% for U.S. diversified-stock funds.

What gives all-caps the performance edge? Cassidy likens them to the sort of hedge funds that let managers run with their best ideas, "giving the portfolio manager a wider playing field," he says. That flexibility often results in steadier returns and lower volatility.

To find a good all-cap fund, check out the *BusinessWeek's* Mutual Fund Scoreboard, found at bwnt.businessweek.com/mutual_fund,

which identifies more than 140 all-cap portfolios from a universe of more than 4,000 mutual funds. Using five-year performance data from Standard & Poor's, funds are ranked by their risk-adjusted returns from A (superior) through F (very poor). All-cap funds is a small fund category, so there are only seven that are rated A (table).

All-Cap, All the Time

Managers of these funds don't confine themselves to a particular corner of the market, preferring to seek opportunities wherever they can find them. These seven funds are top-rated against all other all-cap funds in the BusinessWeek Mutual Fund Scoreboard. Ratings are based on risk-adjusted returns over the last five years.

Fund	Five-Yr Return	Expense Ratio
Columbia Strategic Investor Z	13.9%	0.99%
Fairholme	14.3	1.00
Heartland Select Value	13.0	1.33
Hodges	14.5	1.68
Texas Capital Value & Growth	19.5	1.68
Yacktman	14.1	0.95
Yacktman Focused	14.0	1.25

DIVERSIFICATION TOOL

Because all-cap managers can shop up and down the market-capitalization spectrum, portfolios are often eclectic. Case in point: the A-rated Hodges Fund. Holdings in the \$365 million portfolio, which gained an annualized 14.5% in the past five years, include lumbering giants such as General Motors as well as tiny companies such as Life Time Fitness, a small health-club chain. "One minute we may be buying a small company in a value situation. The next minute we are buying Apple, which is a large-growth stock

that sells at a ridiculous multiple," says Don Hodges, manager of the Dallas-based fund.

That far-reaching, go-with-your-gut approach is what appeals to Gary Webb, chief executive of Webb Financial Group, a financial advisory firm in Bloomington, Minn., who started using the Hodges Fund as a core holding for his clients last year. "For smaller clients, it's a good diversification tool, and for bigger clients, I put it in their portfolio strictly because it's a good fund," Webb says.

While all-cap fund managers have the flexibility to buy all kinds of securities, their portfolios are often concentrated. The A-rated Fairholme Fund only owns about 20 securities, including Berkshire Hathaway and EchoStar Communications. "There's a big advantage in being able to go anywhere and concentrate," says co-manager Larry Pitkowsky. Indeed, the \$1.8 billion fund deftly rode out the bear market, thanks to a portfolio laden with steady insurance stocks. Even with a 2% loss in 2002, its five-year annualized return is 14.3%.

At the A-rated Heartland Select Value Fund, one of the co-manager David Fondrie's favorites is Oregon Steel Mills, which makes steel for railroad tracks and natural gas pipelines. Fondrie has held on to the stock even though it has almost doubled since the fund bought it last spring. All-cap managers can "hold on to their winners, and are not forced to sell when a stock they like has moved outside of a designated market range," Fondrie says. Translation: He's not boxed in.