

In the Press

Webb Financial Group, LLC

Gary Webb
RFC® & CEO



7 Great Funds to Buy Now

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Rob Wherry

Gary Webb was looking for just one good fund. Last fall Webb, who invests \$100 Million for his family's Bloomington, Minnesota, money-management firm, spent a morning at a Charles Schwab conference in Seattle. At lunchtime he walked the floor of the exhibition hall, past rows of booths set up by mutual funds. He shook some hands and pocketed a few business cards. "Most of the funds were been-there-done-that," Webb says. "Then I saw this guy from a distance, and he looked lonely."

Webb had never met Rob Parnell, who wore wire-rimmed glasses and spoke with a Texas drawl. Nor had he heard of Parnell's employer, the Hodges Fund. The tiny Dallas-based offering is a "go anywhere" fund that can invest its \$240 million in any corner of the market. Big blue chips like McDonald's share space in the portfolio with small stocks like Rocky Mountain Chocolate Factory. "This fund never would have come up on one of my screens," Webb says.

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Managed by the father-and-son team of Don and Craig Hodges, the 13-year-old fund has been hard to beat. A \$10,000 investment in the fund five years ago is worth \$21,258 today, trouncing the broader market, which barely eked out a gain during that time. In addition to putting client money in the fund, Webb has stashed six percent of his own savings in it. "You go to these conferences looking for one good idea," Webb says. "That's what I came back with."

Go-anywhere or "multicap" portfolios such as Hodges are often overlooked because they can't be neatly categorized the way funds that, say, invest only in big growth stocks or small value stocks can. In fact, the managers change the investment mix as they spot opportunities. These funds are particularly well suited for investors who put much of their other savings in broad-market or index funds. Using what's known as a "core and explore" strategy, the core of your portfolio provides returns that track the market, while the explore section is invested by managers who can sift through the entire universe of stocks as they try to beat the indexes. If you are going to pay the extra fees for an active manager, you might as well let him stretch his legs.

In order to make our list, a fund needed to have a manager who'd been on the job at least five years and had to have performed in the top third of its category over periods of five and ten years (or since inception if less than ten years old). It also needed to have below-average fees and below average turnover, a double savings for investors because it means lower trading costs and lower tax bills. We were left with mostly small, nimble funds that have left the market in the dust.

(continued on back)

Hodges Fund

FIVE-YEAR RETURN

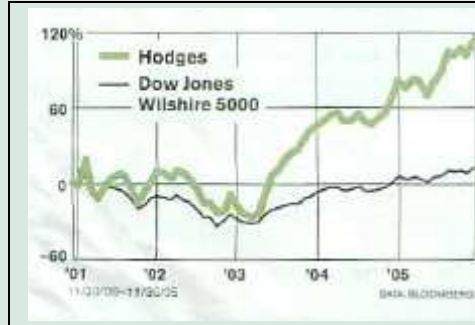
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As a young man Don Hodges made pocket change as a callboy on the railroad, tracking the 20 daily trains that came chugging through the tiny Texas town of Canadian. Hodges, 71, still subscribes to the local newspaper, which is where three years ago he read about Burlington Northern Santa Fe's plans to move freight trains through town every 18 minutes and double the number of tracks. Hodges had a hunch that the investment in infrastructure would help the company shine when shipments picked up. He started buying the shares for \$30 apiece. Burlington, now the fund's top holding, has doubled since then.

Voracious researchers, Hodges and his son Craig, 42, scour regulatory filings and other sources to find undervalued companies like Burlington, regardless of where they are hiding. That has led to the most diverse portfolio on our list, with about 40 percent in big and small growth stocks like Home Depot and Tiffany, a similar share in unloved value plays like Luby's cafeterias, and a final group of what the Hodgeses call "supergrowth" firms like Apple Computer.

Every afternoon Don Hodges pores over a spreadsheet that tracks 15-year earnings growth for 900 companies. In addition to long-term growth, he scrutinizes recent performance to see how a company reacts to market hiccups. Beyond the numbers he looks for strong brands and pricing power. And he isn't afraid to take out several small positions in a range of stocks, since he can keep trading costs to a minimum thanks to a sister brokerage business. The fund has a 46 percent turnover ratio, which means it holds a stock, on average, for a little over two years. That's on the high side for our taste, but still way below the average domestic fund's turnover of 120 percent. The father and son are sticklers for good corporate governance, and nothing ruffles them more than excessive compensation. As a result, they've passed over otherwise attractive stocks such as Citigroup. "I am constantly looking for stocks that are mispriced," Don Hodges says. "But when I see a company loose with compensation, it turns me off."

Like many funds last year, the Hodges portfolio benefited from its oil holdings. But as energy prices come back down from the stratosphere, Don Hodges is leaning toward natural gas



plays such as Chesapeake Energy, a firm that is now enjoying record prices for its product, and oil-service firms like Rowan, Schlumberger and Halliburton. He also thinks cheaper gasoline prices will put more spending money back into consumers' pockets, leading to better earnings for companies such as Tempur-Pedic, McDonald's and Procter & Gamble. In fact, he's making a big bet on consumer names, which now make up 41 percent of the fund. "When the consumer is optimistic, he will spend his cash," Hodges says.

HODGES FUND
(HDPMX)

MANAGERS:
Craig Hodges,
Don Hodges

ASSETS: \$240 million
TURNOVER: 46%
EXPENSE RATIO: 1.52%

QUICK TAKE: The most diverse fund on our list is making a big bet that consumers will keep their checkbooks open in 2006.

HODGES ★ fund

Don Hodges

Larry Weh,

Larry,
We obviously owe you a big note of "thanks" for bringing the Hodges Fund to the attention of Smart Money Magazine. It's great to have friends like you. We've struggled for years for some visibility. You gave us a real push.

Best Regards

Don