

SmartMoneySelect.com		Fund Name		YTD		3Y		5Y		10Y		Risk		Assets		Expense	
1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1

## Some Long-Term Winners Are Stumbling. Is It Time to Sell?



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By Rob Wherry  
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**THE COMPANY LOGO OVER** at Ariel Mutual Funds is the supposedly dawdling tortoise, an homage to the Aesop fable about the slow-poke creature and its quick-footed counterpart, the hare. It's a fitting image for this Chicago-based fund family. **Ariel Appreciation** (CAAPX<sup>1</sup>) is a favorite with long-term investors since it's in the top 15% of its peer group over the last decade, according to Lipper. But impatient savers are probably frustrated by its recent poor returns, which put it in the bottom 25% of that same category over the trailing three-year time period.

Ariel Appreciation isn't the only fund with such a record. For this week's screen we searched for top-performing offerings during the trailing 10-year period that had taken a tumble as of late. Many stellar managers are on our list. The trick for investors is to decide whether they are going to make a comeback or if the spotty performance is a sign of something more serious. In other words, if you're an investor in one of these funds, is it time to get out, or keep the faith? "No one has a lock on the future," says Anton Bayer, a senior vice president at business services firm CBIZ. "But if you find yourself at the bottom with a fund you have to assess whether it's time to move on or not."

Making that distinction doesn't come easy. Even the industry's performance stalwarts — and Ariel is certainly one of them — have spent time at one point or another bringing up the rear. To really understand why a fund has a short-term stumble, investors need to not only look at time periods, but also the performance in individual years. After all, one bad year can drag down three-year performance. Similarly, a few good years, especially during the tech bubble, can artificially spike returns over the long term. In this case, either scenario isn't a good barometer. You need to know how a fund did during a bull and a bear market. You also need to see if a manager has been down before and managed to crawl his way back to the top. "The first thing you need to ask is what is their process and why do you think that process will give you better results going forward," says David Geller, chief executive officer of GV Financial in Atlanta.

There can be clear-cut circumstances that explain how a good fund gets off track, like a manager change, a switch in philosophy or a merger — all of which should raise valid concerns about the future. However, good funds can also tank because a manager refuses to waver from his strategy even when certain styles and sectors of stocks he doesn't favor take off, leaving his portfolio in the dust.

That was certainly the case last year with Legg Mason's Bill Miller. (Miller never makes our screens, though, because his fund carries a somewhat high expense ratio.) His 15-year streak at **Legg Mason Value Trust** (LMVTX<sup>2</sup>) of beating the S&P 500 came to an end thanks, in part, to poor-performing stocks like **Amazon.com** (AMZN<sup>3</sup>), **eBay** (EBAY<sup>4</sup>) and **UnitedHealth Group** (UNH<sup>5</sup>). A less-seasoned manager might have been tempted to sell the positions and then try to juice returns with some other stocks. Miller, though, is holding on, at least according to the fund's latest filings. Similarly, Ariel Appreciation's John Rogers doesn't like the unpredictable earnings of energy stocks so he doesn't buy them. Appreciation has chalked up a respectable average annual return of 8% over the last 36 months, but that pales in comparison to his competitors who juiced their returns with this red-hot sector.

Another manager we wouldn't second guess is Ron Muhlenkamp<sup>6</sup>. His namesake fund (MUHLX<sup>7</sup>) is in the bottom 6% of Morningstar's large-value category over the trailing three-year period, thanks to an ugly 2006 when it returned a measly 4%, almost 12 percentage points behind the S&P 500. Muhlenkamp bought home builders and lending companies he thought were cheap, only to see them fall out of favor with investors over subprime mortgage concerns and slowing housing starts. But take note: Last year was the first in seven that Muhlenkamp has not beaten his benchmark. And the last time he bought home builders, at the height of the dot-com boom, it set up the fund so well that it was one of the top performers in the subsequent bear market. Muhlenkamp has returned an average annual 12.6% over the last decade, 4.4 points ahead of the broad market and a tally even a hare would love. "Despite its recent struggles," Morningstar's Greg Carlson recently noted. "Muhlenkamp remains a fine holding for patient investors."

### The Criteria

We found the funds on our list by screening for 10-year performance in the top 20% of their classification but in the bottom 40% over the last three years. The funds had to be no-load, open to new money and charge less than a 1.5% annual expense ratio. As usual, the funds had to also require a minimum under \$5,000. That gave us 20 funds to choose from. From that group we've chosen eight — based on manager tenure, the current portfolio and past returns along with expert interviews — that we think have the best chances of returning to their glory days.

### Down but Not Out

Company	Fund Type	Expense Ratio (%)	Assets (\$ millions)	3-Year Average Annual Return (%)	3-Year Rank in Classification (%)	10-Year Average Annual Return (%)	10-Year Rank in Classification
Oakmark Select (OAKLX <sup>8</sup> )	Multicap	0.99	5949	7.9	79	16.5	2
Meridian Value Fund (MVALX <sup>9</sup> )	Midcap	1.09	1779	11.3	73	18.5	4
Muhlenkamp Fund (MUHLX <sup>10</sup> )	Multicap	1.06	2382	8.7	95	12.8	5
Fidelity Dividend Growth (FDGFX <sup>11</sup> )	Large-Cap	0.60	16635	7.5	75	10.0	6
Weitz Value (WVALX <sup>12</sup> )	Multicap	1.12	3150	9.1	69	14.2	8
Jensen Portfolio (JENSX <sup>13</sup> )	Largecap	0.85	1847	4.8	94	9.4	10
Ariel Appreciation (CAAPX <sup>14</sup> )	Multicap	1.16	2734	8.1	76	13.2	15
Mairs & Power Growth (MPGFX <sup>15</sup> )	Multicap	0.70	2684	9.4	67	12.6	16

Source: Lipper

Note: Data as of April 4, 2007.

### The Split Personality Fund Screen Recipe

- Fund Type = All equity categories \*
- Annualized 3-Year Return (%) = Display Only
- Rank in Classification (%) (3 year performance) >= 60
- Annualized 5-Year Return (%) = Display Only
- Rank in Classification (%) (5 year performance) = n/a
- Expense Ratio <= 1.5%
- Load Fund (type) = No Load
- Minimum Initial Investment <= 5,000
- Open to New Investors = Yes
- Total Net Assets (\$ millions) >=10
- 1-Year Return (%) = Display Only
- Rank in Classification (%) (1 year performance) = n/a
- Annualized 10-Year Return (%) = n/a
- Rank in Classification (%) (10 year performance) <= 20
- Return-Since-Inception (%) = n/a
- Year-to-Date Return (%) = n/a
- 3-Month Return (%) = n/a
- Manager's Tenure = n/a
- Trailing 12 mo. Yield = n/a

\* Run the screen once for each equity category