Your Total Savings Often Revolves Around Your Workplace Plan, so Scrutinize the Offerings

# Morningstar Gazing — and Other Research Sites

by Danielle Schultz, CFP, CDFA

**Morningstar is a useful and complete resource. But at times it can be hard to sift through the information, navigate what's available and derive a considered opinion. What else should you be looking at and where else can you get information?**

Choosing a portfolio of mutual funds isn't the same as choosing individual stocks via BetterInvesting's methodology. When evaluating stocks, we look for investments that outperform competitors and the market as a whole. Although we attempt to diversify by size, industry and sector, we can't own hundreds of individual investments and keep abreast of the market factors that influence them.

Mutual funds are the component of our investments that provide a core, an average and a balance. Although we probably won't see the outstanding gains of a good stock pick, neither should we expect a mutual fund to zero out.

We choose mutual funds to provide a protective core, avoid total loss, make regular progress consistent with their market sector and provide diversification in areas where it's more difficult to select individual equities. Often, mutual funds are the only options in workplace retirement plans. But we shouldn't just randomly acquiesce to the default. Since most people's portfolios are largely in workplace plans, we should examine just what those investments are.

## Scrutinize Different Annualized Return Periods

Too often I see clients choose funds for their 401(k) by looking at what had the highest return in the past year. If anything, these are probably the ones you should avoid! A fund with a run-up is likely to be flooded with investors buying at the now-high price, at exactly the wrong time. Instead, look at all the different periods.

The 10-year annualized return (or 15 year, if available) will show you a more averaged return and still includes the effects of a terrible market. For 2019 and beyond, the effects of the financial crisis will begin to disappear and you'd be well advised to look for longer periods. The five-year figure tells you how well a fund in question has done in an upswing market, and the three-year and one-year returns indicate whether the fund has done as well as or better than the overall current corresponding market sector.

As every disclaimer will tell you, historical performance is not a reliable predictor of future performance. In fact, Morningstar's star rating (based on historical data) was found to be so little correlated with future performance that the Gold/Silver/Bronze/Neutral rating was instituted to offer guidance on future performance by evaluating analyst opinions of other factors. Both are worth a look, but neither offers certainty.

## Would You Hire This Manager?

For actively managed funds, you should scrutinize the manager. (With index funds, the manager doesn't count as much, as long as the fund adheres to the index.) Who's on the team?

If there's a "star manager," I'm leery. Stars make headlines for a few years of spectacular performance, but too much media attention and adulation distracts from day-to-day operations and causes so much money to flow to funds that it becomes hard to maintain performance, discover unknown gems and still invest the huge influx.

I like to see managers who are chartered financial analysts or have an MBA, or both; a degree from a good school; and old enough to have experienced disastrous markets but not so old (unless there's a deep bench) that I'm concerned whether they'll be around for a while. I look for a lineup that includes mid-career members as potential successors and if possible women and minorities for a perspective that will be increasingly relevant, particularly in identifying new markets.

Are the managers advising or operating multiple funds? Active management requires focus. Do they invest in their own fund? If it's an active fund and they don't have their own money in it, I question their commitment to the fund's performanace.

You can find basic details about these factors on the Morningstar website at the management tab and in the fund's own summary prospectus, but for details, drill down to the complete prospectus. Usually buried deep within is a section discussing the investment adviser and providing more details on the team.

Google the name of the head manager: Sometimes he or she has issued white papers or participated in interviews, conferences or seminars.

None of this will guarantee a fund's success, but it will definitely give you a feel for any unique aspects of management style and whether the manager's market analysis is consistent with your expectations.

## What's Under the Hood?

An index fund is an index fund, right? Well, yes, if it's closely tracking the specific index, you need to evaluate management fees and sales charges. But what about a balanced fund, a fund that attempts to meet or beat an index such as DFA (Dimensional Fund Advisors) funds, socially responsible funds or one that even purports to operate a different strategy, such as contrarian funds?

Take a look at the top 10 to 25 investment holdings. Some funds hold hundreds of investments, but the bulk of their money is in a far smaller clutch of companies (or types of bonds).

For example, scratch almost any large-cap fund and you'll find Apple, Exxon and Microsoft — and if that isn't the case, why?

Do you object to owning any specific type of investment? Is it a large enough portion of the portfolio to make a difference to you? Do you feel the holdings are overweighted to a specific company or industry?

Are there weightings to companies you would consider owning individually? Heavy weightings that you would avoid individually?

In the case of contrarian funds or those with a special emphasis (e.g. value, growth, high dividend), is the array truly what you'd consider for the emphasis or are the funds simply closeted index funds with much higher management fees?

Is a fund truly contrarian (regardless of return) if its top three holdings are Facebook, Berkshire Hathaway and Amazon?

Also, make sure the stated orientation of the fund actually matches what's in it.

Nearly every site offering information on funds will show you the top holdings. But for the most up-to-date and complete listing, go to the fund's own website.

Actively managed exchange-traded funds are required to disclose their holdings daily. The majority of passively managed (aka index) ETFs do so, too.

Mutual funds are required to disclose holdings only on a quarterly basis. Some ETFs are only a different share class of a mutual fund, however, so you can view the ETF version for up-to-date information on the corresponding fund's holdings.

## Where to Go for More Information

Don't neglect the fund's website or annual report, where you can often find a more thorough discussion of the manager's thoughts and expectations that will guide the fund's strategy and investments in the future. You'll also find  a more in-depth discussion of why the manager believes the fund performed the way it did.

**Marketwatch.com** has a very basic screener that generates a list of top performers by sorting on type of fund, net assets and return period. It's easy to compare the same type of fund over different periods, especially to identify consistent performers. Once you find funds of interest, you can click on the link for much more fund information, based on Lipper data.

If you input a ticker symbol you'll go directly to the fund's page. Marketwatch offers similar types of data to Morningstar, but the presentation is a little cleaner and easier to navigate. The Value of $10,000 feature, allowing you see how much a $10,000 investment in the fund would have returned over time, is useful. The information gives you a feel for performance outside the preset periods and is presented in an easy-to-understand metric.

Lipper's analysis isn't always the same as Morningstar's, and if you're considering a substantial investment in a fund, it can be worthwhile to compare data and ratings. The Lipper/Thomson Reuters website **financial.thomsonreuters.com** has extensive coverage of mutual fund issues, their ratings, news and analysis of trends and screening tools.

**SeekingAlpha.com** is a crowd-sourced site where everyone has an opinion. Contributors (all 13,000 of them) can voice any opinion as long as they disclose any affiliation or position in the investment. Content is focused mostly on individual stocks, but there are news articles and individual opinions on mutual funds and ETFs as well. In addition, there's a screener for ETFs (but not for mutual funds).

There's plenty of trashing of specific investments at SeekingAlpha, but if you enjoy unvarnished observations or want to know the worst, it can be entertaining as well as informative. A few warnings: You're going to either need to white-list the site or pay for access. Think carefully before you elect to follow or subscribe. This is a very active site; when I set up alerts for my entire portfolio, I could hardly keep up with deleting emails. You can always visit the site to catch up on an investment when time allows.

If SeekingAlpha is pitched to the financial community and intermediate to experienced investors, **Kiplinger.com** is more consumer-friendly and feels more like the online magazine it strives to be. There's the requisite fund screener, but with more available criteria can come more confusion.

The fund universe can be overwhelming, but depending on the qualities you screen, you may skew your results. Kiplinger also offers articles and lists of the "best of" or "our favorites" variety, which may give you a starting point. With all these sites you must understand the rating system and drill down to the numbers — professional analysts and money managers, as we all know, are often wrong.

Check out what your brokerage offers for research. This used to be extensive, but lower fees mean fewer freebies. When choosing a new home for your investment account, find out what the potential brokerages offer for research tools and backup information.

Morningstar is a great resource, but it isn't the only source of information. Consider these other resources to help your research soar.

Danielle L. Schultz, CFP, CDFA, is a fee-only financial adviser with Haven Financial Solutions Inc., based in Evanston, Ill., and the author of "Idiot's Guide to Beginning Investing." She can be reached at www.HavenFinancialSolutions.com.