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## Five Funds To Ignore Today!

This month's newsletter was supposed to be about how emotion affects investing. Unfortunately, I read the mail before John got to it. John Abrahamson, Sigma's chief investment officer, long ago learned that the quickest way to get me to write a newsletter was not to nag (although he does that too), but to give me something to read that doesn't make sense. In a fit of righteous indignation, I can crank out one of these letters in minutes, subject to later lengthy editing to take out words deemed too "energetic." In fact, John has such a good sense of what will agitate me that he screens Sigma's mail, cutting out and stockpiling items that could be catalysts for future newsletters.

But John's guard was down one day, and I got to the mail first. Reading it made me realize that every day we are bombarded by confusing, contradictory and downright stupid financial advice. Advertisements and articles exhort us to buy particular funds immediately or to take advantage of financial "innovations" in our investments. Analyzing what I read may demonstrate why you should ignore much of what you read (except our newsletter, of course) about investing.

***For 401(k) credit card users, the only difference being in the hot mutual fund will make is having hamburger to add to their hamburger helper in retirement.***

One magazine described the introduction of a credit card that "borrows" from the user's 401(k) plan. The sponsoring bank claims that the purpose of the card is to "encourage savings." Huh? Encouraging savings by making it easier for people to spend their retirement fund on current consumption? Forget all the green eyeshade stuff about the opportunity cost of not being in stocks to the extent of your borrowing, the double taxation on the interest paid when you eventually receive a payout, the interest paid to the bank instead of your retirement account and the chances of the loans being penalized as an early withdrawal. Remember only this and repeat after me -- if I hold a dollar in my hand, the only options are: (1) consumption or (2) savings. These are mutually exclusive. There is no "consumpvings" or "savumption," and anyone attempting to use these in Scrabble will be penalized. You cannot get rich by paying yourself (much less a bank) interest.

I'm sure active users of the 401(k) credit card will be the same people who complain about their limited investment options, not realizing that being in the hot fund with what's left in their account would only mean having hamburger to add to the hamburger helper they will be eating in their retirement. Which brings me to another magazine in the day's mail which lionized the managers of several hot new mutual funds. One manager is commended for not caring what a company makes as long as its earnings momentum numbers look good. I'm sure this cuts down on troublesome overhead costs for such frivolous items as research analysts

and phone calls to management. The article praised another manager for always selling a stock “the minute” it dips 15 percent below his purchase price. I’m left imagining spending \$300 on a Labrador puppy I fall in love with and screaming “sold!” the instant somebody offers me \$250 for it. By the way, half of the magazine’s previous year’s hot new funds underperformed the stock market.

The same magazine touted a system of using two simple numbers from the *Value Line Investment Survey* to pick stocks that had a compounded return of more than 25 percent since 1980, compared to less than 16 percent for the Standard & Poor’s 500 average. Poor *Value Line*! First the Beardstown Ladies (as described here four months ago) and now these guys claim they can beat *Value Line*’s own mutual funds by a huge margin using *Value Line* data. The authors imply these returns will be “generated” in future years as well, ignoring that you can always theoretically “beat” the stock market by torturing historical numbers. I can develop a “system” that beats the market using the number of missed free throws by the Portland Trailblazers -- you just wouldn’t expect it to work in the future. Out of more than 7,300 mutual funds in our database, not one fund attained a 21 percent average annual return over the past 15 years. The magazine’s easy, magic “system” claims to “generate” performance more than 20 percent better than the absolute best mutual fund manager. (Since the magic system was developed in 1995, it has performed dramatically worse than the market. Sigh.)

***“I can develop a ‘system’ that beats the market using the number of missed free throws by the Portland Trailblazers.”***

People, people, people -- this is no way to treat something as important as your retirement financial security. The point of all this is to ignore the “Five Funds To Buy Today!” magazine articles. Ignore

the retirement plan “innovations” that generate fees for banks or stockbrokers but spoil your chances for a secure future. If today’s mail leaves you excited or confused, call Sigma. We’ll help you develop a rational, long term investment program that, among other things, can save you money on magazine subscriptions. Next month’s newsletter -- emotions and investing (if I manage to avoid reading my mail).

-- William A. Berg