

# Investor's Business Daily

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## Don't Count Growth Down And Out

### Focus On Long Term

While value funds lead now, growth's expected to mount a comeback

BY MURRAY COLEMAN

Value fund managers have been on a roll.

In four of the past five years, they've beaten their growth rivals. But how much longer can that continue?

Judging by history, perhaps not much longer. The four years of 1973-76 comprised the longest winning streak for value funds since Lipper started keeping records in 1960. Since the '70s streak, value has beaten growth three years in a row only twice, in 1992-94 and in 2000-02.

Growth stocks, those with above-average earnings, tend to do better when the economy is humming along, the market is bullish and companies post spectacular profit increases. Value stocks, those with below-average P-E and/or price-to-book value ratios, often shine in poor and lackluster markets.

In 2003, a new bull market surged, and so did growth funds. During that year, the average growth fund returned 35.17% vs. 33.55% for its value rival. This year through Tuesday, value seems to have regained its form: -0.24% vs. -1.77%.

By the end of 2004, the two styles were within 1 percentage point of performance after 44 years. And that's counting two of the worst years for growth stocks since the Great Depression. Value was ahead with an average annual total return of 12.44% vs. 11.44% for growth. At those rates, a \$10,000 investment in 1960 in value would

have grown to \$1.74 million vs. growth's \$1.17 million before taxes.

Why not stick with value? "It's always tempting to go with the latest winners," said Christine Fahlund, a vice president of T. Rowe Price's investment services unit. "Value has ruled lately. But that tide could change very quickly."

Points now in growth's favor include solid economic growth, low inflation, rising employment and rebounding capital investments.

Doug Foreman, chief investment officer at TCW Group who oversees \$45 billion in stock assets, keeps an eye on key sectors for clues on when trends might be changing. "Traditional areas of growth like tech and health care have been weak," he said. "At the same time, value areas such as energy, home building and REITs have done very well."

If oil prices drop, it's likely value names will lose at least some appeal. At the same time, rising expectations in tech earnings could also boost prospects for growth stocks. "If estimates improve there, it'll be a new ballgame for growth investing," said Foreman.

So what should fund investors do? Nothing rash. The fund your in, whether growth or value, may be fine for your needs.

If you're looking for a fund, IBD runs several screens throughout the week that list growth and value funds. Our monthly and quarterly special sections also rank various types of funds by performance.

These screens can be a good place to start. You can check to see if a fund has

beaten or at least stayed close to its benchmark and peers over a variety of periods.

If you have a fund that hasn't kept pace with top performers in shorter-term screens, see if it holds up better over longer periods, like five or 10 years. If it hasn't, then perhaps it's time to question whether the fund deserves a place in your portfolio.

And keep in mind that value managers, more so than those focusing on growth stocks, have had the wind at their back since 1960, according to a recent study.

The study, to be published later this year, analyzed fund returns from 1984 through 1999. The research was conducted by **University of Michigan** professors Lu Zheng and Clemens Sialm and the University of British Columbia's Martin Kacperczyk.

"When both styles were compared on more of a level playing field," said Zheng, "we found that growth equity managers generally have more skill than value managers."

But that may be a moot point. Which is better, a slow driver in a fast car or a fast driver in a slow car? The answer is whichever one gets you to the finish line sooner and in one piece.

"A lot of investors have been loading up on value funds," said T. Rowe Price's Fahlund. "But studies have shown investors need at least some growth in their portfolio. Otherwise, they might not reach their goals over the long haul."