

Investment Trends

Some funds help investors roll with uncertainty

By Kathleen Gallagher of the Journal Sentinel

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Jeff Nelson

Investors who can't determine whether the glass is half-empty or half-full are having trouble figuring out how much to drink.

Sluggish housing starts and corporate revenues worry some investors, who already are concerned that the economy is slowing.

Still, corporate earnings and gross domestic product have been growing, and credit markets have recovered from their bottoms.

"We're at a point where there are divergent views on whether we're going to have inflation or deflation," said Jeff Nelson, research director at MBO Cleary Advisors Inc. in Milwaukee.

Rather than struggle to predict who's right, Nelson suggests investors find managers who operate well amid uncertainty.

In his opinion, some of the best are those with flexibility to invest across market capitalizations and styles without worrying whether the stocks in their portfolios match those in the index they compare their performance against.

"There are a couple of mutual funds we use that have done a very good job of protecting investors on the downside, and still have good long-term returns because they typically don't have as big a hole to climb out of," Nelson said.

Here are two funds that focus on absolute return and are willing to hold a lot of cash if they don't find attractive opportunities, he said.

"The philosophy of these managers is that sometimes there will be areas of the market that are expensive, so they don't want to put money there," Nelson said.

The biggest risk Nelson associates with both of these funds is that they tend to lag in a sharply higher market.

Mutual Global Discovery Fund (MDISX, \$27.50) invests mainly in stocks of companies its managers believe are trading at market prices below their estimated private market value. Its 52-week trading range is \$28.92 to \$24.82.

The fund also buys distressed securities and uses merger arbitrage, where it buys shares of a company that is an acquisition target and short sells the stock of the potential acquirer in the hope of making money no matter what happens.

Peter A. Langerman and Philippe Brugere-Trelat were recently named as the fund's co-managers, and they're both seasoned investors who've been with Franklin Mutual Advisers for more than 16 years, Nelson said.

Mutual Global Discovery has an expense ratio of 1.03%, according to Bloomberg.

FPA Crescent Fund (FPACX, \$24.69) invests up to 70% of its assets in stocks and the rest in debt securities and cash. Its 52-week trading range is \$26.13 to \$21.88.

Like Mutual Global Discovery's managers, FPA Crescent manager Steven T. Romick of First Pacific Advisors LLC buys stocks, but also sells them short and is able to go across a company's capital structure by buying bonds.

Although it owns a fair amount of foreign shares, FPA Crescent tends to be less global than Mutual Global Discovery, and usually has a lower allocation to big company stocks, Nelson said.

FPA Crescent has an expense ratio of 1.34%, Bloomberg says.