

Your Mutual Fund Manager Quit

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Your Mutual Fund Manager Quit, So What Should You Do? Knowing what to do when your mutual fund manager departs is not always an easy decision for investors to make. By itself, a manager leaving is not a reason to sell a mutual fund. However, what you do with this information is an important consideration. Before, I get into the heart of this topic I would like to offer some thoughts on why this is important in the first place.

Typically, most investors are told that past performance is no guarantee of future results. However, I believe it is more likely for a manager who has done well in the past to continue doing well in the future. Similarly, a manager who has under-performed in the past is more likely to continue under-performing in the future. This is why I prefer to invest in funds that have at least a five-year track record with the same manager. Many investors rely heavily on past performance when choosing a fund. However, if the fund manager responsible for this performance is not running the fund, currently, this great performance could be misleading.

In some cases, the departure of a fund manager may correspond with recent bad performance on the fund. This could reinforce your decision to sell an under-performing fund or in some cases encourage you to hold onto the fund for a while longer in hopes that the new manager can turn things around.

I believe it is important to look at the recent performance of the fund and consider how the fund ranks compared to peers over the past 12 months, three years and five years. Was the manager that just departed responsible for all or the majority of this performance?

If the fund has performed well against its peers you want to consider if the incoming manager can achieve similar performance. A good place to look are the past funds that he or she may have managed or been a research analyst on. If you cannot determine this, you may want to consider removing the fund from your portfolio and replacing it with a similar fund that has demonstrated a good track record of success.

If the fund has not performed well against its peers, a new manager may be your opportunity to see improved performance from the fund especially if the fund company has a good track record of grooming portfolio managers. I like to think of this as a fund company's bench strength, just like in sports.

Good fund companies should be removing an under-performing manager and replacing him or her with someone who the company expects will produce better returns for shareholders. Fidelity is a company I look at that tends to have higher than average manager turnover, yet they have built solid track records for their funds because they have a well defined investment process.

Another consideration to look at is whether the objectives of the fund have changed or is it just the manager that is being changed. I tend to sell a fund if the core philosophy or goal of the fund is also changing since there would not be a proven track record with this new strategy.

So how do you know if your fund manager has changed in the first place? A good website you can check for this type of information is www.morningstar.com. Morningstar has in-depth information on funds and also has an e-mail newsletter you can subscribe to so you will be notified of manager changes (Weekly Wrap). Another website, FundAlarm.com, keeps a listing of manager changes and updates it on a monthly basis. You can access this information at: www.fundalarm.com. Some fund companies such as SSgA have a team approach and it can be more difficult to tell when management has changed or whether a change in the team is material.

As always, keeping up to date and informed about your investments is a key component to your success as a long-term investor. If you are unsure about what to do with your portfolio or do not feel you have the time or expertise to assess changes in fund management or performance issues, you should consider our Financial Consultation or Investment Management services. Here at Bloom Asset Management, we specialize in no-load fund analysis and management. We are evaluating these various issues and developing strategies on a day-to-day basis. Please contact Delilah Caputo at (248) 932-5200 if you would like to discuss our services or to schedule an appointment.