Making End$ Meet ~ 17th Annual Investment Discussion ~ 2012

Dear client, colleague, and/or friend, Spring 2012

This is a discussion of mutual fund reports which, instead of being embedded in this report, are for brevity's sake located at this web page and will be referenced with hyperlinks throughout.

Since Return on Investment (ROI) is one of the most consequential variables in an investor's economy, every spring I skim the cream off the mutual fund market and share the results in an annual report. This is the seventeenth.

Although this discussion is about mutual funds, I don't mean to imply that they're the only way to invest. However, their regular accountability facilitates the making of a report like this; and since they're invested in almost all sectors of the economy, from precious metals to health care to real estate and more, I regard them as a statistically representative sample of the entire investment universe.

The purpose of this discussion is to help you prosper by defining excellence. However, beware that investing in the funds on these reports right away can result in “performance chasing.” Nonetheless, with such excellent track records, I reckon they're noteworthy for future reference, at least as historic examples of what's possible. Past performance is no guarantee of future results; read prospecti and annual reports; if you need help understanding them, get it. Buy low, and sell high.

This year's excellence-defining Return on Investment (ROI) criteria are 19.3%, 31.8%, 8.5%, and 12.7% for 1, 3, 5, and 10 year annual averages, respectively. In other words, of the 25,000+ funds that Morningstar tracks, when sorted by one time frame at a time, within each time frame 200 funds met or exceeded these thresholds.

The following chart puts these criteria into historic perspective:

Average Annual ROI Criteria, Top Performing Mutual Funds, 1996-2012
Data courtesy of Morningstar.com, 03/31/2012

	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12
1 Yr	45.0	29.7	59.0	55.4	80.0	17.0	22.0	14.7	84.5	23.8	54.0	31.8	27.4	7.5	98.5	41.2	19.3
3 Yr	22.5	22.8	34.7	31.3	40.0	16.0	20.0	13.7	22.1	19.8	47.0	28.9	28.5	6.7	8.6	11.8	31.8
5 Yr	19.5	18.1	23.5	27.1	29.0	19.0	17.0	7.8	19.0	17.8	26.0	25.2	33.3	9.4	14.9	11.1	8.5
10 Yr	14.7	14.0	19.8	19.2	20.0	16.0	14.0	10.0	13.2	13.9	15.3	14.7	14.1	9.8	12.4	14.0	12.7

Over the years, I have developed the following rating scheme, based on the idea that the ideal investment never loses money and enjoys excellent, stable growth by meeting more than one criterion:

A – All criteria (1, 3, 5, & 10 year average annual return)
B – 1, 3, 5
C – 1, 3
D – Honorable Mention: met criteria in the past, & still performing respectably

April 2011 – March 2012 has been a transitional time, when many funds with higher long-term returns were low or negative in the short term, and vice-versa. Consequently there were no As or Bs, and only five Cs, which you'll find listed first on this report of Top-Performing Mutual Funds 1996-2012.

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In view of this, in addition to the usual report I compile, I've also taken the liberty of identifying the few funds that were consistently positive.

One, "Excellent Low Risk Funds", is a straightforward screen shot from Morningstar's database of low risk, no load funds with low initial investments and consistently positive returns.

The other, "Sixty Positive Funds" is a more exhaustive list from my database of all funds that have ever qualified to be on past reports and that, regardless of risk rating or initial investment, were consistently positive during the April 2011 – March 2012 period.

Sector Discussion

Usually, I break down each year's qualifying funds into their economic sectors and discuss trends. This year, since only five funds qualified, if we confine our attention only to them, there's not much to discuss. Four were Large Growth, and one was Real Estate. What I notice from the 1996-2012 Sector Analysis is that the Large Growth class is enjoying a resurgence after its last four-year run in 1997-2000.

Meanwhile, let's have a look at a sector breakdown of the Sixty Positive Funds.

Sixty Positive Fund Sectors by Frequency of Occurrence

Sector	Frequency
Large Growth	17
Large Blend	6
Medium Growth	6
Technology	6
Emerging Markets Bonds	5
Health Care	4
Medium Blend	4
Small Growth	3
Small Value	2
Large Value	1
Long Government Bonds	1
Long-Short	1
Multi-Sector Bond	1
Real Estate	1
Small Blend	1
Utilities	1
Total	**60**

What strikes me from this is that after a long lull, larger companies are making a major comeback. I'd be interested to inquire more closely into the portfolios of these seventeen Large Growth funds.

It's also clear to me that Precious Metals Mania is over, and that we're focused on growing our economy again. As it continues to develop, change, and improve, and as the prices of precious metals and precious metal funds continue to drop, watch for Precious Metal buying opportunities.

Other News

Gumption. I find that after all the goals have been listed, the math has been done, accounting systems have been set up, and all the other technical work involved in setting and pursuing goals has been done, what really determines whether those goals are achieved is an ineffable thing called “gumption.”

I find that gumption depends on loving somebody, and that there's a huge difference between “stepping” into love, and “falling” into it. Having experienced both, although it's a more frightening and out of control feeling than stepping, I much prefer falling and recommend it highly. It's like wind at your back.

Last year I learned what a difference adoration makes. Now, as both subject and object, I recommend watching for opportunities practice adoration, and seize them . . . or in a nutshell: be adorable, and adore.

Benefits. Have you read the Benefits Manual yet? If you haven't yet, please check it out.

Churches. Lately I've felt called to help churches, both individually and institutionally. I've written a little web page about this calling that includes an online needs survey, which I encourage you to see and share with others.

Dave Ramsey & Financial Peace University. As a part of my own continuing professional education, I'm currently enrolled in Dave Ramsey's 2012 Financial Peace University and have gained great respect and appreciation for his enterprise, especially for his “Baby Step” approach.

Franchising. I've decided to duplicate myself using a franchise model. Here is another little web page about the opportunity I'm offering.

Please pass the word and let me know if you or anyone you know might be interested in becoming a Making End$ Meet Economist. It has been a blast, and I'm eager to share the joy.

Conclusion

Regardless of economic cycle, excellent investment opportunities continue to be available to the rational and attentive investor.

Of course to take advantage of these opportunities, one must have something to invest. Income must be robust, and expenses must be under control and less than income, thereby generating an “investable” surplus.

That is where Making End$ Meet can help. For more information, please visit the web site and contact me.

For your health and happiness,

Kris Freeberg

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