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CHASING RETURNS CAN RESULT IN DISAPPOINTMENTS

Chasing returns can result in disappointments

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Do you read the multitude of investment magazines designed for the "do-it-yourself" investor? Do you pore over the lists of the top-performing funds for each month, quarter and year? Then when you see that XYZ Equity Fund did better than your funds, do you consider changing your investments to capitalize on the great returns the other fund had last year, last month or last quarter?

Before you do anything rash, think about this: In many cases, the top-performing fund in a given category (e.g. growth, bond, international, etc.) is off the list in the next comparable period. To illustrate this point, take a look at most consumer investment magazines' top 10 fund and stock performance lists from one month to the next.

Some investors put money into a fund in hopes of getting the same performance as the year before. They sometimes end up "chasing returns" and are often very disappointed. How can this happen?

First, you may not be comparing apples to apples. Like many, you could be a conservative investor. Suppose, for example, that the top-performing fund last year was the Whoop It Up Aggressive Growth Fund. An aggressive growth fund is a mutual fund designed for maximum capital appreciation that places its money in companies with high growth rates (biz.yahoo.com, financial glossary, last visited Dec. 7, 2004).

Because aggressive growth companies are also subject to higher market risk, you could be eyeing an investment that is way outside your comfort level. For those who need to preserve their principal for retirement support, it may not be a good idea to chase these types of investments.

Also, performance numbers might not tell the whole story either. For instance, if a fund averaged 20 percent a year over a five-year period, a significant portion of that return may have been from one or two very good years. Also, the fund could have actually lost money in the last 10 periods.

With this in mind, it is usually a good idea to compare fund performance over short, intermediate and long-term periods. Also remember that sales charges, recurring fees and expenses accompany mutual funds to varying degrees. With this said, you will want to know if the performance data you are looking at has accounted for these items.

On a final note, you should always carefully consider investment objectives, risks, charges, and expenses before investing in any mutual fund. For this and other information about any mutual fund and its underlying investments please call the mutual fund provider to request a prospectus. Please read the prospectus carefully before you invest or send money.

DC4 Report

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