Making Sense of Fund Manager Style

Fund managers use a variety of investment philosophies, or styles, to invest. This is what makes them unique. The success of any one investment style varies from year to year. It is difficult to predict which style will be the "winning style" with the best returns in the coming years. Here is a description of the most common investment styles used by fund managers. Use this information to help you understand how a fund manager invests:

Value: a value manager looks for under-priced stocks. That is, the stocks are inexpensive based on a review of the company's strengths and future outlook. Success is determined if the stock rises in price to its estimated value or potential.

Growth: a growth manager looks for stocks that will continue to grow at current levels due to high earnings growth. The price of the stock may already be high, but is expected to grow even higher. Success is determined if the growth company continues to grow profitably and the stock price rises as a result.

Growth at a Reasonable Price (GARP): a GARP manager looks for stocks that are the best of both value and growth styles. They want value stocks with strong growth potential, but are not too expensive relative to their potential.

Index: a manager that follows an index strategy is following a passive style. The manager simply buys and sells stocks or bonds to match the holdings of an index such as the S&P/TSX Composite Index. The performance of an index fund should be similar to the performance of an index, less the cost of running the fund (the management fee). Index funds tend to have lower management fees.

Large, Medium and Small Cap: any of the above management styles may also concentrate on large, medium or small "cap" funds. "Cap" is short for capitalization and indicates the size of a company based on the number of shares issued and the current price. Large cap companies are large companies and have more stability. Small cap companies are smaller and are more volatile. Over the long-term, the returns of small cap companies may outperform large cap companies, but the risk and volatility is much greater along the way. Smaller companies are also at higher risk of financial problems during bad economic times.

Specialty: a specialty manager concentrates on one sector of the economy (such as technology or health care) or one region of the world (such as Emerging Markets). Specialty funds tend to be more volatile because of this concentration.

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