

# Buying Newly Created Funds

updated to 2011

Do newly-created funds offer better performance than their more seasoned competitors?

From 1992 through 2006, a brand new, just out of the box mutual fund was the number one performing fund in its investment category a whopping 50 times! This significant accomplishment led some investment experts and many financial pundits to claim that purchasing newly created funds is a great moneymaking strategy. They suggest that new funds, not overwhelmed with too much money, can focus on purchasing those few stocks that they love, rather than settling on the stocks they don't hate — a malady afflicting the largest funds. An *InvestmentNews* May 3, 1999 article claimed that “performance numbers would be a lot better if you looked only at nimbler new funds and left out the bloated old ones.” In his book *Pick Winning Mutual Funds*, author Jerry Tweddell writes that “a disproportionate number of new funds show up regularly on the list of top performers, year after year.” Charles Schwab did a study called “Do New Funds Offer Better Performance?” concluding that they indeed do.

We conducted our own study in 2007 to see just how often new funds have great first years. Overall, of the 2,280 new funds surveyed, 27% finished their very first year in the top quartile of performance while 25% finished their first year in the bottom quartile. Taking a broader view, 51% of first-year funds performed in the top half of their peer groups, while 49% finished in the bottom half. A coin toss has similar results.

We just finished looking at newly-created funds from 2007 to 2010. This time, we focused strictly on the traditional domestic equity categories, but the results were similar. Out of 656 newly-created funds, 28% had top quartile first years and 28% had bottom quartile first years. Once again, a coin toss produces similar results.

Category	1st Q	2nd Q	3rd Q	4th Q	TTL
Large Cap Core	32	26	50	43	151
Large Cap Growth	38	29	18	21	106
Large Cap Value	10	11	12	10	43
Mid Cap Core	18	13	17	26	74
Mid Cap Growth	18	2	9	9	38
Mid Cap Value	9	4	13	6	32
Small Cap Core	25	29	28	37	119
Small Cap Growth	22	9	9	13	53
Small Cap Value	11	7	6	16	40
Totals	183	130	162	181	656
Percentages	<b>28%</b>	20%	25%	<b>28%</b>	