



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



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Fidelity Bets on Stock Selection

With the recent launch of Stock Selector Mid Cap, Fidelity has added to its growing family of sector-neutral Stock Selector funds available to individual investors. Like its sibling funds, Stock Selector Mid Cap relies on a team of managers, each of whom independently manages sector-focused sleeves of the portfolio.

The fund allocates its assets to each sector based on its benchmark S&P MidCap 400 Index's weighting (this is where the "sector-neutral" label comes in), with each of the eight managers working within their areas of expertise to identify their best ideas for their sector's sleeve(s). This contrasts with a top-down approach, where a manager identifies themes or sectors they believe will outperform and allocates accordingly. Stock Selector Mid Cap's bottom-up approach eliminates the need to make sector rotation and market timing decisions, relying instead on the benchmark (and S&P's index committee) to make the broad allocation decisions.

Why this approach? The Stock Selector funds are based on the premise that superior stock-pickers can outperform the market over time (a theory that we ascribe to at Adviser Investments as well). Fidelity believes that the approach taken by this family of funds removes the potentially negative effects of market timing and sector selection from the portfolios, placing the onus for performance solely on the management team's selection of stocks.

This is not a new methodology for Fidelity--Stock Selector Mid Cap is essentially a clone of Advisor Stock Selector Mid Cap (the firm's Advisor-class funds are only available through broker-dealers or for institutional investors), which has been around since February 1996. The same team of sector managers, each of whom currently manages one or more funds for Fidelity, will oversee the new fund's assets. This includes:

- Monty Kori, Industrials and Materials
- Rayna Lesser, Telecom Services and Information Technology
- Shadman Riaz, Energy
- Gordon Scott, Consumer Staples and Consumer Discretionary
- Douglas Simmons, Utilities
- Pierre Sorel, Financials

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- Patrick Venanzi, Health Care
- Samuel Wald, REITs (real estate investment trusts)

Unfortunately, for Fidelity's theorists and the Advisor fund's investors, the stock selection has not lived up to the hype, and long-term performance has lagged the S&P MidCap 400 Index benchmark over various multi-year periods through May 2012, as you can see in the table below. While the fund has outperformed over the last year (which perhaps played a role in the timing of the retail share class's introduction), the rest of the table tells a different tale.

A History of Underperformance

	1 year	3 year	5 year	10 year
Advisor Stock Selector Mid Cap	-4.6%	15.4%	-3.0%	5.0%
S&P MidCap 400 Index	-6.1%	18.9%	1.7%	7.2%

Performance data as of May 31, 2012. Source: Fidelity.com

A quick check of the numbers for other Stock Selector funds that follow a similar methodology (All Cap, Large Cap Value and Small Cap) show similarly disappointing results. While we believe that Fidelity's reasoning--that superior management and stock picking should lead to outperformance--is sound, the Stock Selector funds have not been able to deliver for investors.

About Adviser Investments

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