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ADVISER FUND UPDATE

ADVISER INVESTMENTS

Market Summary and Commentary for Individual Investors from Adviser Investments

November 26, 2008

In This Issue

Vanguard Adds with Subtraction

Vanguard announced on November 25th that Franklin Portfolio Associates was being replaced as a manager on Morgan Growth by two other firms. Franklin Portfolio's 20% of Morgan Growth's assets was split between teams from Kalmar Investments and Frontier Capital Management.

Kalmar Investments

Kalmar Investments is no stranger to the concept of multi-management, as one of Explorer's multitude (seven teams, if you're counting). Ford B. Draper, Jr. has been named Kalmar's representative at Morgan Growth's newly enlarged management structure (five teams and counting)—he also manages Kalmar's portion of Explorer.

Kalmar was appointed to Explorer in February 2005 and the firm currently manages about $2.7 billion overall in small-cap and mid-cap stocks using a "growth with value" approach that sounds much like the GARP, or "growth at a reasonable price" strategy that the better-known PRIMECAP Management is famous for. Their research process is intensive and they typically hold stocks for the long haul, looking for a minimum 15% annual growth in earnings and, eventually, a revaluation in the markets to recognize this growth. Kalmar runs one public mutual fund, the $317 million Kalmar Growth-With-Value Small Cap (KGSCX), started in April 1997, but the bulk of its assets under management are in separate accounts focused on small stocks. In 2001 the company also began managing assets focused on "smid-cap" or small- to mid-sized companies, which it seems will be the strategy employed on the firm's portion of Morgan Growth.

Frontier Capital

Morgan Growth is Frontier Capital's first appointment with Vanguard, with Stephen M. Knightly heading up his firm's team on their portion of the fund. Knightly is a senior vice president and a member of Frontier Capital's five person management committee, which determines policies and overall management strategies for the firm. He also leads Frontier's Mid Cap Growth strategy group, which as of the end of September had $765 million in assets.

Frontier Capital Management Company was founded in 1980, and as of 2008, managed about $4.8 billion in institutional and individual client assets in small, small/mid, mid and large cap U.S. equity strategies. In 2000, Frontier became an affiliate of Affiliated Managers Group, which has a majority stake in the firm, with the firm's management team accounting for the rest of the ownership. Frontier calls its investment style "growth at reasonable valuations" (again reminiscent of PRIMECAP's GARP strategy) and in combination with in-house fundamental research, makes "bottom up" investments seeking a combination of growth and attractive valuations.

Morgan Bloat?
Vanguard says that the two firms were chosen to replace Franklin Portfolio Associates specifically for their emphasis on mid-cap stocks. It remains to be seen how much of a difference two new teams splitting just 20% of the fund's total assets can make on performance, but, as we have mentioned in past updates, we generally view the accumulation of increasing numbers of management teams as a negative for most funds, creating bloated portfolios and index-like performance. In addition, Morgan Growth has never been one of our favorite Vanguard funds, as we feel that a number of the firm's other choices in the mid- to large-cap growth universe such as PRIMECAP, PRIMECAP Core and Growth Index have a combination of better management and long-term growth prospects.

Fidelity Manager Moves
On November 18th, Fidelity appointed two new managers to replace the departing Trygve Toraasen. While we do not see the management changes as negatives, we would not recommend either fund due to global recessionary factors.

Melissa M. Reilly has been named manager of the Europe fund. She will continue to manage Europe Capital Appreciation, Advisor Europe Capital Appreciation and co-manage Global Balanced, each of which she assumed responsibilities for in 2007. Reilly joined Fidelity in 2004 as an equity research analyst in the global research team and followed companies in the international food manufacturers, HPC, luxury goods and general retail sectors. In 2005, she began managing a global consumer fund available exclusively to Canadian investors. Prior to joining Fidelity, Reilly was a senior vice president and portfolio manager for Putnam Investments, where she worked from 1999 to 2004. Reilly's responsibilities at Putnam included managing several European portfolios as well as following a wide variety of European companies. She previously worked for Morgan Stanley from 1995 to 1997 and began her career with Anderson in 1993.

Ronald Port has been appointed manager of the Nordic fund. He joined Fidelity as an equity research analyst in 2002 following European companies in the support services industry, eventually moving on to cover companies in a number of other sectors and markets including German small- and mid- cap companies, paper and pulp packaging companies, South African retailers, technology hardware and European large-cap consumer companies. For the past year, Port has worked closely with Toraasen, assisting him with research on the Nordic region.

Cold Weather, Hot Tech
If you live in a colder climate, it's likely that your heat has kicked in, the leaves have begun to colorfully litter neighborhood yards and you've pulled out your warmer jacket. At Adviser Investments, we've developed investment strategies to see our clients through all seasons, but at this time of year we traditionally take note of an annual trend we call *Tech Winter*.

We are about a month into *Tech Winter*, which takes its name from the four-month period of cold weather outperformance we've observed in tech stocks over the past 23 years, annually stretching from November through February.

While it may seem strange that tech stocks follow a seasonal pattern (and that there could be any pattern at all in the volatile markets we've experienced over the last year), there are actually a number of factors we believe lead to their four-month historical outperformance year after year.

The first has to do with fourth quarter spending by corporations. Many information technology managers will have held back in using up their entire budgets in case of an emergency or to spend on some new tech innovation or product that allows the company to stay competitive. Because of the likelihood that budgets will be cut from year to year if they aren't fully spent, managers feel increased pressure to empty their accounts towards the end of the year. This sales surge is duly noted and the tech stocks that benefit from this spending rise on expectations of higher earnings.

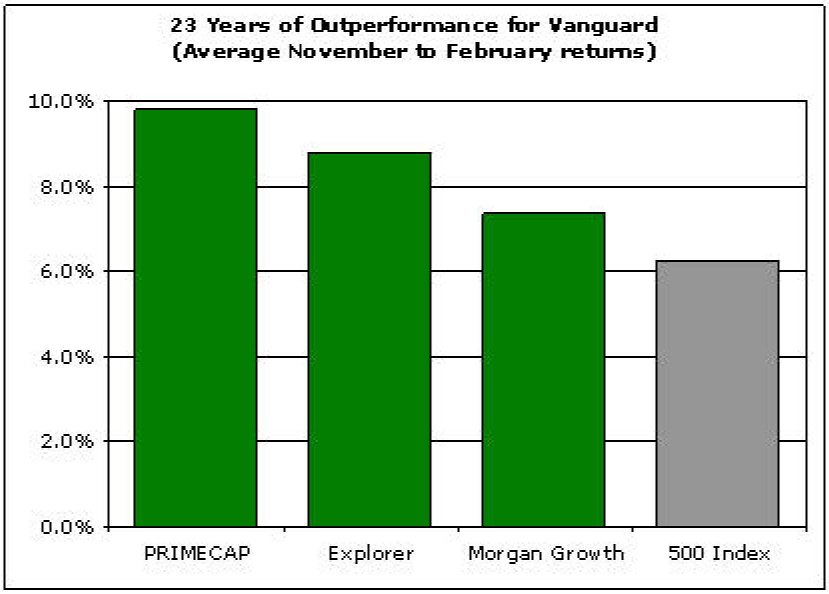
A second contributor is Europe. European purchasers account for a significant piece of U.S. technology orders, and during the fourth quarter they do an increased amount of buying. The reason for increased spending in these final months? Credit those lengthy European summer vacations—orders drop during the summer as workers go on holiday. When vacations end, orders start rising in the fall and through the winter, often hitting a peak in the last few months of the year.

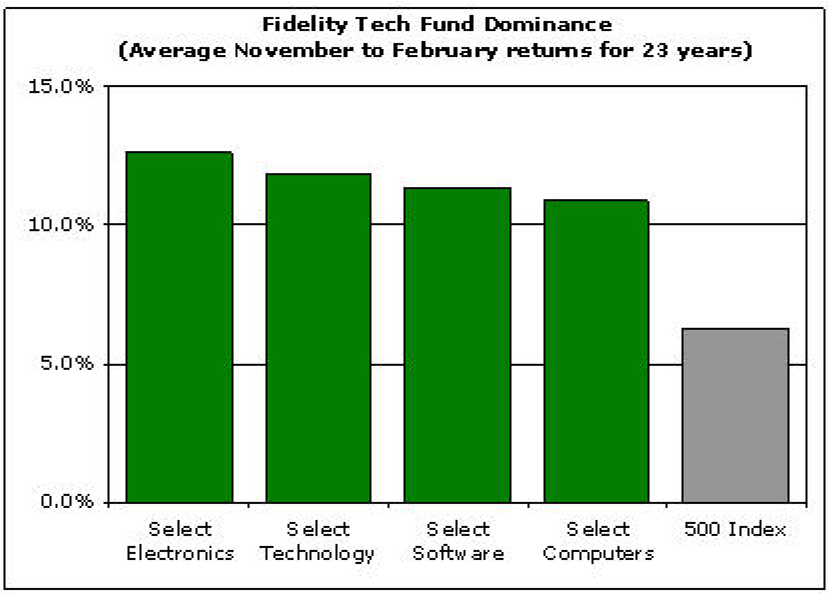
A final catalyst for *Tech Winter* may be the bargains hardware companies create to sell off existing inventories as they begin readying for new product launches. This affords corporate purchasers an opportunity to acquire the cheap, well-tested products still sitting on manufacturers' shelves.

Tech Winter comes to a close as technology companies rebuild their inventories at the start of the new year and a new buying cycle begins. When this happens, tech stocks don't necessarily return less, but they do become less predictable in their behavior, not following the historical pattern typically seen between November and February.

Keeping Warm in *Tech Winter*
We do not suggest making dramatic changes to your portfolio just in an attempt to benefit from *Tech Winter*. While the evidence overwhelmingly shows that the trend exists (see the charts showing average performance for tech-heavy Fidelity and Vanguard funds from November to February below), year-to-year results can swing unpredictably, and not all funds with heavy tech weightings are worthy of your investment. That said, we think one should have at least a market weighting in tech stocks through the four months of *Tech Winter*.

We recommend sticking with a disciplined long-term investment strategy and funds that can provide you with outperformance throughout all market cycles. Our clients have benefited in the past from positions in tech-heavy funds like Vanguard's Capital Opportunity, Growth Index, PRIMECAP and PRIMECAP Core as well as Fidelity's Contrafund and Magellan. To the extent the *Tech Winter* trend repeats itself over the next four months, funds like these should perform favorably.





About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $1.2 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 40 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

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