ADVISER INVESTMENTS

# ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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## Fidelity Tries to Correct Course at Magellan

Oh, how the mighty have fallen. Fidelity Magellan was once was the world's largest mutual fund, topping out at $110 billion in assets in 2000. After delivering sub-par returns over the past 15 years, however, Magellan now ranks as only the ninth largest fund at Fidelity, with $17 billion in assets.

In Magellan's heyday, photos of former star manager Peter Lynch graced the covers of personal finance magazines. Investors jammed Fidelity's phone lines, eager to buy shares of what some called "that Fah-gellity fund." Since Lynch's retirement in 1990 at the ripe old age of 46, his successors have tried, but largely failed, to match Lynch's results.

Given the fund's particularly disappointing results over the past decade (its average annual return of 0.54% trails the S&P 500's 2.70% through the end of August), Fidelity's announcement earlier this month that Jeffrey Feingold would be replacing Harry Lange as manager came as no great surprise.

Lange, who had previously enjoyed success as manager of Fidelity Capital Appreciation, struggled at Magellan. Since taking the reins in October 2005, Magellan's total return of -0.1% trailed the 14.1% gain in the S&P 500 (through August 31). The fund's performance lagged 85% of its peers over the past five years and assets shrank by $33 billion during Lange's tenure.

Lange's penchant for a more global approach to asset allocation did not help matters during the protracted downturn in established foreign markets over the past several years. Meanwhile, the fund never benefited from any meaningful exposure to emerging markets stocks, which performed much better. An ill-timed decision to load up on financial stocks, including Wachovia and AIG, led to a bruising loss of 49% in 2008.

At the end of last year, we speculated that Lange would likely be out of a job if the established foreign markets did not turn around soon. This year's 15.2% decline (through September 27) in the MSCI EAFE Index of developed international markets sealed Lange's fate.

Fidelity now turns to Jeffrey Feingold to help restore some of Magellan's lost luster. Feingold has achieved solid results as manager of the $1.04 billion portfolio at Fidelity Trend, which he has managed since February 2007. He has also managed Large Cap Growth since November 2009 and will continue to manage Advisor Strategic Growth and VIP Growth Stock Portfolio. Previously, Feingold managed several of Fidelity's sector portfolios. He is a 1992 graduate of Brown University and earned his MBA at Harvard in 1997.

As manager of Trend, Feingold has shown himself to be a bottom-up stock picker. He favors U.S.-based multinationals with bigger, better balance sheets and global trading capabilities. He looks for companies that are growing their sales and earnings faster than the market and avoids large sector bets. While he has invested about half of Trend fund's assets in traditional growth sectors like technology and consumer discretionary, he is also willing to look for growth in nontraditional sectors, such as consumer staples companies.

Over the past year, Feingold's approach has served Trend well, as it beat 84% of its peers. As of August 31, Trend's top three sectors were information technology (29.4% of assets), consumer discretionary (14.1%) and energy (11.9%).

As Feingold shifts his attention to his new charge, we expect that he will re-position Magellan away from an aggressive global growth fund to a more risk-managed growth fund that can capitalize better on domestic and global trends. His preference for large domestic multinationals should help lower Magellan's overall risk profile, while also engaging better with the global markets (including the emerging market consumer base).

While we think Feingold's strategy makes sense in the current economic climate, we would not advise new investors to buy into the fund just yet, based more on the fund's makeup than the new management. Our top pick within Fidelity's large-cap growth offerings remains Mega-Cap Stock. That said, current Magellan shareholders who have significant taxable gains may be better off sticking with the fund, rather than selling.

**Fidelity Adds a Squad of Spartans**
Five new funds have been added to Fidelity's lineup of low-cost index funds, bringing the total to 13. The new funds include:

• Spartan Emerging Markets Index
• Spartan Global ex U.S. Index
• Spartan Mid Cap Index
• Spartan Real Estate Index
• Spartan Small Cap Index

The new funds are available in five different share classes, two of which (Investor and Fidelity Advantage) are available to retail investors. Investor class shares have a minimum initial investment of $10,000 and Advantage shares require a $100,000 investment. Expense ratios range from a low of 0.12% for Spartan Real Estate and Spartan Mid Cap Advantage share class to 0.33% for Spartan Emerging Markets Investor share class.

**Vanguard Promotes Six Funds to Admiral**
Earlier this week, Vanguard introduced Admiral shares for six index funds. The new funds (listed below), are available for a $10,000 minimum initial investment and feature expense ratios ranging from 0.10% to 0.21%. If you have a $10,000 or greater balance in the investor shares of any of these funds, you should be automatically converted to the Admiral shares later this year (or you can contact your Vanguard rep and ask about converting if you believe you're eligible).

**New Admirals**
• Developed Markets Index
• Mid-Cap Growth Index
• Mid-Cap Value Index
• Small-Cap Growth Index
• Small-Cap Value Index
• World ex-U.S. Index

As we mentioned in our August 5th *Adviser Fund Update*, five of the new Admiral funds have corresponding exchange-traded fund (ETF) shares (the exception is Developed Markets Index), which offer expense ratios just a few basis points higher than the new Admiral shares. If you can't afford the Admiral minimum, the ETFs are also a solid, low-cost means of investing in these funds. For more details, please refer to the August 5th *Adviser Fund Update*.

**About Adviser Investments**
Adviser Investments and its subsidiaries operate as an independent, professional money management firm

specializing in Fidelity and Vanguard mutual funds. With 2,400 clients and over $2 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our staff of 50 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.