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Few Firms Earn Loyalty of the Wealthy

Well-Heeled Investors Search for Consistency; Vanguard Rates Highest

BY MURRAY COLEMAN

Affluent investors say they're increasingly dissatisfied with their mutual funds' long-term performance and inconsistent returns. In fact, only 11 of 38 top fund families manage to create meaningful customer loyalty, according to a report released by Cogent Research LLC.

The Cambridge, Mass., market researcher surveyed 4,000 mutual-fund investors with at least \$100,000 in investable assets. "The findings show it's difficult for fund companies to produce consistent returns that investors can be pleased with," Managing Director Chris Brown said. But some do, he added. "There's a small group of firms that has been able to generate sufficient long-term returns to build strong investor loyalty," Mr. Brown said.

The study showed Vanguard Group with a wide lead in investor loyalty. "Some firms might want to please advisers rather than the end-investor," Mr. Brown said.

Some families that rely on sales through financial advisers scored well. That included funds distributed by American Funds, Davis Funds, J.P. Morgan Chase & Co. and Franklin Resources Inc. "These shops have generated loyalty with both advisers and individual investors," Mr. Brown said. "They've proved to be reliable in terms of producing consistent track records. But they've also shown an ability to clearly communicate their investment philosophies to end-users."

That's a common thread found by the study between no-load mutual-fund shops and those that market through advisers. "Most mutual funds are like investors," said Charles Stanley, a La Jolla, Calif.-based adviser. "They're all over the place in terms of chasing short-term performance."

In order to bring in customers and assets, he says, fund complexes tend to focus too much on immediate gratification for shareholders. "It's the nature of the beast for much of the retail mutual-fund industry," Mr. Stanley said.

Some buck that trend, according to the study. "Each of the firms earning top loyalty ratings are clearly communicating to investors that they're not going to chase hot returns, and they're dedicated to long-term investing," Cogent's Mr. Brown said.

Other fund families that got positive reviews were Dodge & Cox, Charles Schwab & Co. Inc., T. Rowe Price, Fidelity Investments, Legg Mason Inc. and RiverSource Investments, a unit of Ameriprise Financial Inc. Several of the firms had "just a few more supporters than detractors," he said.

Vanguard stood out, he added. "They've got far more loyal and satisfied clients than unhappy ones, compared to their competitors," Mr. Brown said.

Participants rated companies based on a sliding scale in areas such as overall satisfaction, the likelihood of investing more money with the company and whether they were likely to recommend the fund family to others. They were also grouped into detractors, supporters and those who didn't have strong opinions either way.

The average score was minus-12. The high was Vanguard's plus-44. Second place went to Dodge & Cox with a plus-29. Schwab came in with 26 points, and T. Rowe Price had 21.

Researchers asked investors questions to determine what was behind their actions. "It's the consistency of fund performance that drives their loyalty," Brown said.

Fund companies can attract customers with strong short-term records, he added, but "if they can't keep producing, it's evident that, eventually, [customers]

will turn to a more reliable long-term performer."

Past studies by Dalbar Inc. also have found that investor perceptions about funds are tied closely to long-term results. "Even when investors are switching, they're looking for solid long-term performers," said Louis Harvey, Dalbar's president.

The average holding period for a stock mutual fund, he added, is running about three years. Target-date funds, which blend stocks and bonds and switch allocations as investors get closer to retirement, average about four years. A pure-bond mutual fund averages 3.2 years, Mr. Harvey says.