

# Top 10 Mutual Funds Lag Behind S&P 500 Index

By **Tim Quinson** | *Bloomberg Business News*

None of the 10 biggest U.S. stock mutual funds is generating higher returns than the Standard & Poor's 500 Index over the past three years.

The funds, ranging from the \$53.2 billion Fidelity Magellan Fund to the \$15.2 billion Vanguard Windsor Funds, have all recorded lower gains than the S&P 500's annual return of 17.1% since September 1993, according to a report by Lipper Analytical Services, Inc.

That index includes the \$26 billion Vanguard Index Trust - 500 Portfolio that was designed to mimic the benchmark S&P 500 Index. The Vanguard index fund is up 16.95% a year over the past three years; trailing the S&P 500's gain by 15 basis points a year, Lipper Analytical reported.

Vanguard's index fund is the top performer of the nation's 10 biggest funds but its returns lag the S&P 500 because of expenses deducted that go to Vanguard to manage the fund.

Overall, Lipper Analytical estimates that just 22% of the more than 1,135 actively managed stock funds sold in the U.S. recorded better returns than the S&P 500 Index over the past three years.

"The stocks that make up the S&P 500 Index have been hot the past three years, so it's been difficult for almost any fund manager to beat the index," said Stephen Janachowski, a financial advisor in San Francisco.

This year only the Vanguard Windsor Fund is doing better than the S&P 500 Index, according to Lipper Analytical. The fund is up 12.79%; the S&P 500 Index is up 12.74% as of Thursday.

The conventional wisdom is that the bigger a mutual fund gets, the harder it is for the fund to perform. That is the case this year and for the past three years.

"There is no question the returns of bigger funds gravitate toward the mean," said Neil Bathon, pre-

sident of Financial Research Corp. in Chicago.

When a fund gets to \$10 billion in assets, it's more difficult for the manager to beat the average because it takes large, concentrated bets in an industry or asset class to influence the fund's overall performance, Bathon said.

"If the manager makes a wrong bet, the fund is going to have some problems," he said.

That's what happened to the Fidelity Magellan Fund this year, Bathon said. The strategy backfired as U.S. stocks kept climbing.

Below is a list of the annual gains of the 10 largest U.S. equity funds over the past three years relative to the S&P 500, as reported by Lipper Analytical:

## Mutual Funds 9/16/93 - 9/19/96

Fidelity Magellan (annual return)	12.60%
Investment Co. of America -	14.24%
Vanguard Index Trust-500 Portfolio	16.95%
Washington Mutual Investors	16.02%
Fidelity Contrafund	15.35%
Fidelity Growth & Income	16.43%
Fidelity Puritan	11.12%
Twentieth Century Ultra Investors	14.49%
Income Fund of America	10.92%
Vanguard/Windsor	14.08%
Standard & Poor's 500 Index (annual return)	17.10%

TRANSCRIBED FROM AN ARTICLE THAT FIRST APPEARED IN THE BLOOMBERG *BUSINESS NEWS*,

© 1999