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Volume 2, Issue 2

2nd Quarter 2006

The Truth About Mutual Fund Performance

We have found there are three factors that are most important to successful mutual fund investing. The first two are selecting funds with low expense ratios and low portfolio turnover. These two factors more than past performance determine how a mutual fund will perform in the future. I'll touch on past performance in a moment. According to Stefan Sharkansky, personalfund.com, funds with expense ratios of less than .65% had an average annual after tax return of 9.6%. Funds that had an expense ratio of greater than 1.6% had an average after tax return of 7.7%. In the same article pub-

lished in July of 2002, larger cap equity funds for each 100% of turnover the expected reduction in annual pre-tax return is 1.24%. As you can see it is possible for us to improve our return by well over 2% by just choosing low expense ratio and low turnover mutual funds. After 20 years a 2% increase in return will result in \$48,595 extra dollars on a \$100,000 account. The third factor in successful mutual fund investing is diversification. A portfolio that is balanced between US large and small cap, international large and small cap, emerging markets, and fixed income will reduce

volatility and increase gains.

One of the most common mistakes people make in choosing a mutual fund is past performance. In 1999 Morningstar picked Jim Callinan, manager of the RS Emerging Growth Fund (RSEGX) as its Manager of the Year. For the past five years his annualized return stands at a negative 3.21% compared to the MSCI US Small Cap Growth Index which had a 5 year annualized return of 4.69%. That is what I call major underperformance from a former Morningstar Manager of the Year.

Investing Tip of the Quarter

Most people should rollover any 401k plans with former employers into an IRA

The Advantages:

1. *Your beneficiaries can stretch their distributions.*
2. *Greater flexibility, control and investment choices in an IRA.*
3. *Access to professional management of you IRA assets.*
4. *Smoother estate planning.*

1st quarter performance of Various Asset Classes

SPY (S&P500)	+3.78%
QQQQ (Nas100)	+3.17%
DJIA	+2.90%
Russell 2000	+12.51%
Hang Seng	+9.63%
10yr. Treasury Interest Rate	+10.85%
Oil Futures	+11.38%

Expectations

The stock market is off to a great start this year. Now is a good time to talk about expectations. As I write this article the SPY is up about 4% for the 1st quarter of the year. Using the last thirty years

as a measure that is about 40% more than the historical average. Please keep in mind as you look at your quarterly performance we had an outstanding quarter. I heard a discussion on "Good

Morning America" about the market reaching a new high. For me, it is a sign of trouble when the mass media begins talking about the market. Forget the quarterly moves, think long term.