



TALES OF THE TAPE: American Funds Quietly Draws Big Money

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NEW YORK -- Considering the scrutiny currently aimed at the mutual-fund industry from a host of fronts - including regulators, the media and investors - it's hard to blame a fund firm for wanting to keep a low profile these days.

And while some can't seem to shake the inquiring glare, one firm - Capital Research & Management Co. and its family of American Funds - purposefully shuns the spotlight and still emerges as far-and-above the best-selling fund brand in the nation.

What's remarkable about American is its ability to fly under the radar - thanks to little or no advertising - and still gather in huge piles of money.

Driving the strong sales are investment advisers loyal to a brand that they say features consistently good, if not actually stellar, performance, low expenses, a wide range of products and solid service.

Through August, American Funds has reaped net inflows this year of more than \$35 billion, according to the Financial Research Corp. That's nearly 25% of the total \$142.7 billion invested in stock and bond funds for the entire fund industry during the period.

Net flows this year have easily surpassed those of second-place Vanguard Group, which has added \$19.7 billion to its stock and bond funds through August.

Unlike Vanguard and the nation's largest fund-firm, Fidelity Investments, American funds are sold to investors through third-party intermediaries, such as brokers and financial advisers.

It seems advisers and their clients find American's low-cost, focus-on-consistent-performance formula just what the doctor ordered after the beating dished out to many who held technology and other aggressive growth funds during the bear market.

Weathering The Downturn

Back during the days of the bull market, when outrageous returns from risky tech funds were the fancy of investors, American's net flows were understandably more tame, though it still ranked among the nation's largest fund companies.

In the first eight months of 1999, the firm brought in a relatively modest \$665 million, according to FRC. The same period a year earlier showed outflows of \$333 million.

Now, as the stock market has picked up steam this year, so too has the new money flowing into American.

Paul Herbert, who covers several American funds as an analyst with investment researcher Morningstar, said that the firm's funds "held up really well during downturn," and that's helped draw in new money.

August - for which the most recent monthly figures are available - looks especially strong for the firm.

Its haul of almost \$4.8 billion during the month was more than four times the amount drawn by its nearest competitor, Dodge & Cox - another unassuming fund shop - which raked in a little more than \$1 billion.

Since August 2002, American's stock and bond fund assets have climbed almost 28%, to \$408.1 billion, and trail only Vanguard and Fidelity Investments in a list of the largest U.S. fund groups.

By comparison, Fidelity's assets are up about 17%, and Vanguard's have risen 16% over the same period.

'Won't Embarrass Us'

As for why they're steering their clients toward American Funds, advisers mainly say its their consistent, almost-predictable performance and low annual cost - qualities that seem to engender a considerable level of trust.

"Whatever fund you choose, you know it's not going to get killed," offered **Richard Winer**, a financial adviser in Woodland Hills, Calif. "When I think of American Funds, I think of stable funds that aren't taking huge bets on technology," he added.

The firm's minimal advertising is also seen as a plus by Winer. "They're not out there hawking their funds," he said. "I think it helps their integrity."

Others point to the simple fact that American funds haven't put them in a position where they had to apologize to their clients over bad performance.

"One of the things we like about American is they won't embarrass us," said John Sloop, head of mutual-fund marketing at Edward Jones & Co. in St. Louis.

Although American funds don't normally top the list of the best performers, they are never seen scraping the bottom either, Sloop said.

A broad menu of funds and low employee turnover are a couple of other favorable qualities of the company mentioned by Bill Mason, an Edward Jones broker in Olney, Md.

"You have the same people calling on you, year after year," Mason said, referring to American's sales force. The fund managers have an average tenure of 18 years with the firm.

"I think you learn a lot about a company from how they treat their employees," he added.

Mason and others also praised American's management style, which emphasizes long-term performance, and their rather unique system of portfolio management.

The funds are run by a group of "portfolio counselors" - several different individuals who each receive a portion of the fund's assets to invest.

The firm's research analysts also get a share of the portfolio to manage, which means an analyst position isn't necessarily "a stepping stone to being a portfolio manager," as it is with most firms, Mason said.

American Funds spokesman Chuck Freadhoff declined to comment on the firm's success in attracting new money, except to say, "It's been a good year."

He pointed to several reasons for the company's good fortune, including its long history and the way it sells its funds.

The firm's founding dates back to 1931, and "We have always maintained a very strict approach to selling through the financial-adviser channel," rather than directly to investors, Freadhoff said.

He downplayed the suggestion that American's low-profile might be an advantage in the current swirl of controversy engulfing the fund industry, following revelations of questionable trading practices at some firms.

"I think the fact that (the funds) are sold through financial advisers only is an advantage in any period of uncertainty because the investor has someone they can ask, 'What about this and what about that,'" Freadhoff said.

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