

FUND WATCH

Value Line Asset Allocation: Cut Risk By Shifting Assets

This fund uses the Value Line Investment Survey to pick stocks.

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By Jennifer Schonberger

One way to cut risk is with a fund that shifts money from stocks to other assets when its managers think shares are too risky or they see better opportunities elsewhere. **Value Line Asset Allocation** (symbol **VLAAX**) has chalked up a solid record doing just that. The 18-year-old fund is a product of the company that publishes the venerable *Value Line Investment Survey*. The fund sticks mostly to stocks — at last report, it had 70% of its \$63 million in assets in stocks and the rest in high-quality bonds (the tilt toward stocks puts the fund in Morningstar's aggressive-allocation group).

Over the past year through September 9, the fund returned 12.3%, putting it near the top of its Morningstar category. The average aggressive-allocation fund gained 4.2% over that period, and Standard & Poor's 500-stock index advanced 6.6%. Value Line Asset Allocation also has a solid long-term record, returning 5.2% annualized over the past ten years, compared with an average of 3.8% for similar funds and 2.6% for the S&P 500.

To determine the fund's allocation, managers Stephen Grant and Jeffrey Geffen use a model that compares stock values and interest rates. The model dictates allocating more to stocks when stock valuations and rates are low and less to stocks when they are high. Over the past ten years, the stock allocation has ranged from 55% to 85%.

The Value Line managers say that their stock picks have had a greater impact on performance than their allocation moves.

The managers use a momentum-oriented strategy to pick stocks. They look at such things as quarter-to-quarter earnings growth, short-term share-price movement and trading volume. A combination of positive numbers, says Grant, indicate improving investor psychology toward a stock. Moreover, he and Geffen will add a stock to the fund only if it gets at least a 1 (best), 2 or 3 out of 5 in the *Investment Survey's* ranking system, which itself favors stocks with earnings and share-price momentum. This makes for a fund filled with fast-growing companies.

The fund invests in companies of any size, but the majority of its holdings now are midsize firms. That's something that differentiates this fund from other asset-allocation funds, which tend to focus on larger companies. The biggest stock holdings at last report were Ansys (ANSS), Stericycle (SRCL), and Kansas City Southern (KSU). Ideally, the managers would like to hold a stock forever, but if either quarter-to-quarter earnings growth or a stock's momentum relative to other stocks falters they cut the cord.

On the bond side of the portfolio, the fund only invests in high-quality, investment-grade bonds. Currently one-third of the bond portion is invested in corporate bonds, one-third in mortgage-backed bonds and the remaining third in government bonds, including U.S. Treasuries and debt issued by the Federal National Mortgage Association and Federal Home Loan Banks.

Although the Value Line fund has lost less than the overall stock market during the last two downturns, its big allocation to stocks and its record indicate that it's not a super-safe haven during mega-downturns. The fund lost 31.9% during the 2000-02 bear market and 43.7% during the 2007-09 bear market. From the market's most recent peak on April 29 through September 9, the fund dropped 8.9%, compared with a decline of 14.8% for the S&P 500.