Money
NOVEMBER 2015

Pick Funds That Fall Less

BY HOLDING GROUND IN TOUGH MARKETS, YOU HAVE A SHOT AT BIGGER GAINS IN THE LONG RUN.

by Carla Fried

WHENEVER STOCKS FALL SHARPLY, as they did this summer, active fund managers sense an opening. Traditional stock pickers begin to argue that they can outperform because they've got the flexibility to avoid land mines, unlike index funds, which must hold all the securities in their market.

Alas, active management is no guaranteed salve. In terrible 2008, roughly half of actively managed large-cap stock funds beat their benchmarks. Still, this doesn't mean you shouldn't seek out fund managers who can outperform in tough times. "By losing less in down markets, a fund needs less time to rebound" when stocks recover, notes James Underwood, chief portfolio strategist at Welch Hornsby Investment Advisors. A portfolio that fell 20% less than the S&P 500 in down months needed to generate just 86% of the market's gains in up months to match the index's long-term return, Underwood calculates. And it would have been about 17% less volatile.

The question is, How can you find such stalwart funds and incorporate them in your plan?

WHERE TO LOOK

While past performance is no guarantee, "funds with a history of outperforming when stocks fall will likely lose less in future downturns," says Russel Kinnel, director of fund research at Morningstar.

Focus on funds with solid "downside capture" ratios over the past 10 years. This ratio, which you can look up under a fund's "ratings and risk" at Morningstar .com, gauges a fund's performance relative to the market in down months. Make sure the current manager is responsible for that entire record so you can be certain you're dealing with someone who cares about downside protection. With this ratio, below 100 is good—and the lower, the better.

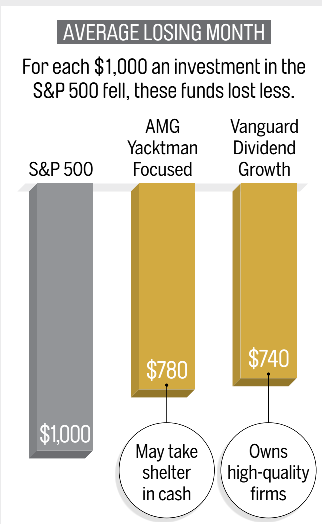
For instance, **AMG Yacktman Focused** (YAFFX) has a downside capture of 78 over the past 10 years. This means the fund lost 22% less than the market in down months. Yet over that decade, the fund beat the S&P 500 by more than two percentage points annually. **Tweedy Browne Global Value** (TBGVX) sports a downside capture of less than 55 over the past decade, compared with an international stock index. That has helped it beat 99% of similar funds.

HOW THESE FUNDS DO IT

The managers at Yacktman and Tweedy Browne tend to hold cash when they think stock valuations are too high. That "cash drag" can slow returns during bull markets but often proves helpful when the market begins to fall. Then the money can be used to snap up bargains as valuations become more compelling. AMG Yacktman

A Shorter Drop

A measure called "downside capture" reveals funds that do better in bad markets. Here's how it works:



NOTE: *Average downside based on 10 years past performance.* ***SOURCE:*** *Morningstar*

Focused, for example, had a cash stake of more than 30% coming into the 2008 bear market. It fell less than 24% that year, compared with 37% for the S&P 500. When stocks rebounded in 2009, the fund, which had gone on a buying spree, gained a brisk 63%.

Other funds, such as **American Century Equity Income** (TWEIX), lose less by emphasizing value-oriented stocks that typically hold up better in down markets. **Invesco Dividend Income** (FSTUX) and **Vanguard Dividend Growth** (VDIGX) specialize in reliable, quality companies with growing dividends, which investors tend to favor in rough times.

WHY YOU MUST BE PATIENT

Now, you'll have to accept one fact. "You're likely not going to have great performance in up markets, and your performance is not going to track a benchmark," notes Graham Pierce, a managing director at Beacon Pointe Advisors.

So before committing to such a fund, make sure you can sit through long bouts of relatively weak performance. During the three bull years of 2012 through 2014, for example, Yacktman lagged both the S&P 500 and most similar funds, according to Morningstar.

WHEN YOU SHOULD REALLY CARE

Welch Hornsby's Underwood notes that funds with smaller average losses are ideal for money that will be tapped in 10 to 15 years. So they may be attractive for those in or near retirement.

"Your time horizon is vitally important when you are taking withdrawals," he says, as retirees have less time to recover from setbacks. As a guideline, funds that lose less should make up about 25% of a retiree's portfolio, he says.

That should be enough to help you sleep and retire comfortably. M

Investment performance presented in the attached article for the Tweedy Browne Global Value Fund (the "Global Value Fund") is as of December 31, 2015 and is subject to change.

The average annual total returns of the Fund for the 1-, 5- and 10-year periods ending December 31, 2018 were -6.67%, 2.62%, and 9.26%, respectively. Total annual Fund operating expense ratio as disclosed in the Fund's most recent prospectus was 1.36%.

Morningstar has ranked the Global Value Fund among its peers in the Morningstar Foreign Large Value Category. For the 1-, 5-, and 10-year periods ended December 31, 2018 the Global Value Fund has ranked in the in the top 1% (out of 315 funds), the top 2% (out of 225 funds), and the top 4% (out of 149 funds), respectively. Percentile rank in a Morningstar category is a fund's total-return percentile rank relative to all funds in the same category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. The number in parentheses represents the number of funds in the category. Percentile rank in a category is based on total returns, which include reinvested dividends and capital gains, if any, and exclude sales charges. As calculated by Morningstar, the Fund's ten-year downside capture ratio as of December 31, 2018 was 48.53.

The preceding performance data represents past performance and is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data shown. Please visit www.tweedy.com to obtain performance data that is current to the most recent month end.

The Global Value Fund does not impose any front-end or deferred sales charges. However, a 2% redemption fee is imposed on redemption proceeds for redemptions or exchanges made less than 15 days after purchase. Performance data does not reflect the deduction of the redemption fee, and, if reflected, the redemption fee would reduce any performance data quoted for periods of 14 days or less.

Current and future portfolio holdings are subject to risk. Investing in foreign securities involves additional risks beyond the risks of investing in U.S. securities markets. These risks include currency fluctuations; political uncertainty; different accounting and financial standards; different regulatory environments; and different market and economic factors in various non-U.S. countries. In addition, the securities of small, less well known companies may be more volatile than those of larger companies. Value investing involves the risk that the market will not recognize a security's intrinsic value for a long time, or that a security thought to be undervalued may actually be appropriately priced when purchased. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Diversification does not guarantee a profit and does not protect against a loss in a declining market. Please refer to the Funds' prospectus for a description of risk factors associated with investments in securities which may be held by the Funds.

The Global Value Fund is distributed by AMG Distributors, Inc., Member FINRA/SIPC.

This material must be preceded or accompanied by a prospectus for Tweedy, Browne Fund Inc.