

'Go-anywhere' funds deliver as promised

By [Dan Jamieson](#) **InvestmentNews**

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If last week's volatility was a test, go-anywhere funds passed.

Classified by Morningstar Inc. as “world allocation” funds, go-anywhere funds have been growing in popularity as a core holding, having the flexibility to allocate globally among stocks, bonds, cash, gold and other asset classes intended to hedge risk.

From July 1 through Aug. 9, the world allocation category declined by 5.66% while the S&P 500 was down 11.06%, according to Morningstar. Year-to-date through Aug. 9, the category was off 2.82%, compared with a 5.7% loss for the S&P 500.

Indeed, bad times have driven new entries in the category. Of the 123 funds classified as world allocation portfolios, 30 were launched last year and 28 this year.

“It's a great sell: Avoid the bad times, participate in good times,” said Michael Herbst, associate director of fund analysis at Morningstar.

On the flip side, the funds were up 10.58% last year, compared with a 15.06% gain for the S&P 500. But that is just fine with financial advisers who use the products.

“We know we're not going to get the full upside,” said Stephen Blum, president of Strategic Wealth Planning, which has \$75 million under discretionary management.

THE FINE PRINT

Advisers need to make sure they know what their clients own, Mr. Herbst said.

“This is one of those categories where the range of strategies is so wide, people think they have one thing, but actually have another,” he said.

Some go-anywhere funds mimic a standard 60/40 mix of stocks and bonds that “you could get a lot cheaper” in other ways, said Robert Kresek managing partner at Founders Financial Network LLC, which manages about \$600 million.

Recent launches of go-anywhere funds have appealed to a “tactical mindset” among advisers, Mr. Herbst said. But it is the rare organization that has the needed expertise across many asset classes and a repeatable ability to call the markets, he said.

In an interview with *Investment News* last month, Dennis Stattman, manager of the BlackRock Global Allocation Fund (MALOX), worried that some of the newer funds lacked the resources to run global allocation portfolios, and that some good initial records simply reflect luck.

Advisers, of course, are relying on managers' skills at making good allocation decisions.

“We're depending on the manager to change allocations as conditions change,” Mr. Kresek said. Go-anywhere fund managers can get “in and out of asset classes much quicker and with much more intensive research than we can.”

Mr. Blum said he has “de-capped” his client portfolios, meaning he no longer makes specific allocations to large or small stocks. He instead takes a “global allocation approach,” using funds that participate in the upside but can shelter some of the downside, like the Ivy Asset Strategy Fund (WASAX).

“Because we're not fully in-vested, volatility is our friend,” said Matt Lamphier, an associate portfolio manager at First Eagle Funds, whose flagship is the go-anywhere First Eagle Global Fund (SGENX).

First Eagle, which has put about \$1 billion of cash to work in the recent sell-off, has about 75% in stocks and 25% in cash and gold-related investments, he said.

In contrast, the All Asset All Authority Fund (PAUIX) from Pacific Investment Management Co. LLC has just 7% in global equities.

“We're very equity-light ... because we forecast the probability of a double-dip recession over a sovereign debt crisis,” said Jason Hsu, chief investment officer at Research Affiliates LLC, the subadviser to the two Pimco All Asset funds.

FASTER GROWTH

Research Affiliates expects emerging markets to grow faster than developed countries and plans to buy into those markets as they sell off. The firm also expects longer-duration bonds to benefit from continued slow economic growth.

The All Asset All Authority Fund also can hold Pimco funds that short the markets.

Pimco is “doing things we could never do [to] avoid some of the tail risk,” said Mr. Kresek, who uses the Pimco All Asset portfolios.

Likewise, managers of the Ivy Asset Strategy Fund aren't shy about making bold moves to cut risk.

“The next move for our fund is to be out of the way” of the next credit crisis, Ryan Caldwell, one of the fund's portfolio managers, said on a conference call last week.

“The catalyst will be interest rates going from severely negative [in real terms] to normal,” he said.

The Ivy fund could be a good fit for advisers who want a more tactical manager, Mr. Herbst said. The Ivy team “has been pursuing that strategy for about 20 years, and has experience in making some pretty dramatic market moves.”

For core holdings, Mr. Herbst likes the BlackRock Global Allocation Fund, the First Eagle Global Fund and The IVA Worldwide Fund (IVWIX).

The BlackRock fund has “a long-standing, stable team” of managers who “won't get too tactical and won't get too concentrated,” he said.

The First Eagle and IVA funds may not have as much fixed income as some advisers would want, Mr. Herbst said, “but as core equity holdings, they're both pretty solid funds.”

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