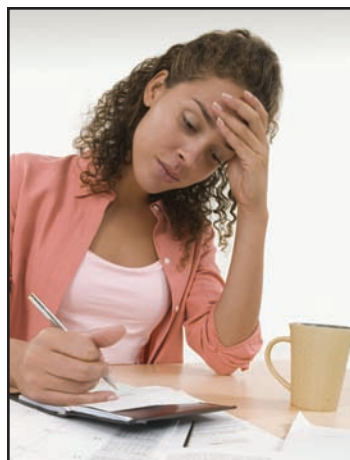




Financium.com



Unique EQUITY INVESTMENT STYLES

There are many strategies used by fund managers to achieve growth on capital. The effectiveness of any strategy will depend on the manager's skill.

Sector rotators

After a top-down assessment of economic prospects, these managers invest in an industry sector, at any given time, most likely to outperform the entire stock market. Sector rotators will utilize a value or a growth style or a combination thereof. Extremely difficult to execute accurately, managers constantly rotate to the sector appearing to be next with the greatest potential for growth. They trigger capital gains often because the managers sell when they rotate to the next sector.

Practical Wealth Creation Ideas

...for Simplified Financial Success™

Mirroring an index

Using this strategy, there is no need to take a top-down or bottom-up approach. Managers of index funds simply hitchhike the ongoing performance of an index such as the TSE 300 (the 300 most widely traded stocks on the Toronto Stock Exchange). They have no intent to outperform the market, only mirror it. Unlike the growth fund managers, they do not shift portfolio holdings. Thus if the market turns down, the fund will also slip with it in tandem. There may be a potential capital gains tax advantage, as the fund's stocks are not turned over frequently.

Combinations of styles

By combining, for example, a growth style with a value style, a mutual fund would be comprised of stocks with the potential to grow over the mid to long-term. Another variation may be to use top-down analysis to assess the economy, then the sectors, before using a value style (normally approached bottom-up) to assess a sector-specific company. Some may divide their mutual fund into different styles so as to achieve style diversification.

Two Key Equity Investment Styles Compared

Value Fund

Fewer out-of-favour stocks
Higher dividend yield
Infrequent gains triggered
Less volatile

Growth Fund

Many hot stocks
Lower or no dividend yield
Frequent gains triggered
More volatile