

DYNAMIC FUND SELECTION - how and why our fund ratings work

FundExpert “Momentum Ratings”

Within FundExpert.co.uk you will see that each fund has a rating, from 1 Star to 5 Star. This “Momentum Rating” tells you if a fund should be bought. A 5 Star Momentum Rating should mean a high probability of extra growth*. This is based on a form of momentum investing, which means buying an investment (in this case a fund) which is already performing well on the likelihood that it will continue to perform well. We call this process “Dynamic Fund Selection.”

Any fund that is 4 Star or less we label as a “sell” with the option to “view alternatives”. This shows you the best funds in that same sector. We choose these alternatives by looking back over the last 6 months, analyzing all of the funds in the appropriate sector, and identifying the top performers (based on a number of factors) as 5 Star. Remember, Dynamic Fund Selection means buying a fund which is already performing well, the idea being that it will continue to doing well.

But for how long?

Our research shows that 6 months is a good period over which you should review your funds. A huge number of other academic studies concur.

So what is the process?

Let’s assume that 6 months ago you bought or switched into 5 Star fund using FundExpert.co.uk (switching is free by the way), 6 months later (now) we send you an email alert with an updated rating of your fund. If it has fallen below 5 Star you will be prompted to “view alternatives” and switch into a 5 Star fund. You should repeat this process every 6 months to ensure you stay in the top Momentum funds for that sector.

An analogy

Think of your funds as relay runners. You hand the baton (your money) to a runner in motion (a fund with momentum). When the runner comes to the end of his lap (6 month cycle) and begins to tire, he hands the baton to another runner in motion, and the process is repeated.

How much additional performance with Dynamic Fund Selection?

Most of our early research was based on the UK All Company sector (UK growth funds), as this is the largest sector, and very popular. Looking back over 11 years to June 2011, this was the outcome:

FTSE 100	+28.30%
Sector Average	+22.75%
Momentum	+146.20%

How likely is outperformance with Dynamic Fund Selection?

This success of Dynamic Fund Selection isn’t just about the extra performance, but how likely you are to achieve extra performance. For the UK All Company sector in any 5 year rolling period since 1994, the likelihood of you outperforming the sector average and the stock market index, was 94% and 88% respectively. Basically, the research showed there was a strong chance of achieving a huge amount of additional growth if you followed the process of Dynamic Fund Selection.

* **Growth not income**

Momentum Ratings indicate short term growth potential, and do not give any indication of a fund’s ability to provide income. Income investors should completely ignore the fund ratings on FundExpert.co.uk. They are solely an indicator of capital growth potential based on momentum investing. Do not be concerned if a fund you hold for income has a low star rating.

NOTES ON CHARGES AND PERFORMANCE: All performance numbers are bid-to-bid, net income re-invested, sourced from our own research. None of these growth rates are guaranteed, the past is no guide to the future, and these are not illustrations of future returns. Our research was from January 1994 to June 2011. The value of your investment, and the income from it, can fall as well as rise. If purchases/switches take place through Fundexpert.co.uk, there are no initial charges or switching fees. Most funds are single priced though extra costs will arise on dual priced funds.