

The Pitfalls of Chasing Past Performance

Do hot funds stay hot?

MFR via e-mail

Fund News

With the large number of mutual funds available, choosing the right funds can be a challenge. What are the factors you consider when deciding to purchase a mutual fund?

Do you focus on past performance alone, or do you also consider the track record of the portfolio manager, his or her investment style, and the risk controls the fund has in place?

Despite the tag line that often accompanies performance figures – “Past performance is no guarantee of future returns” – many investors place performance numbers near the top of the list.

Putting trust in history

Indeed, historical studies and anecdotal evidence suggest that mutual fund performance numbers are influential in motivating investors into and out of individual mutual funds.

Many industry observers also try to draw meaningful conclusions from past results. You’ve probably come across systems that rate funds (four out of five stars, for example) based on performance. The financial sections of newspapers typically publish the top ten mutual

funds for the week, the month, or year, as does this newsletter.

Can past fund performance in some way indicate or predict future success?

Testing the Theory

In a recently completed study, ScotiaMcLeod looked at the performance history of 80 Canadian equity mutual funds over the past 10 years. To gauge future performance, each mutual fund’s performance for a specified period was compared with the period that followed it.

For example, a fund’s performance for the three-year period from March 1992 to March 1995 would be compared against its results for the subsequent period of March 1995 to March 1998.

The study attempted to find out if past results are a good indicator of future performance. If they are a reliable indicator, then top-performing funds (defined as the top 20%, or first ‘quintile’) should tend to put up better returns than other funds in subsequent periods.

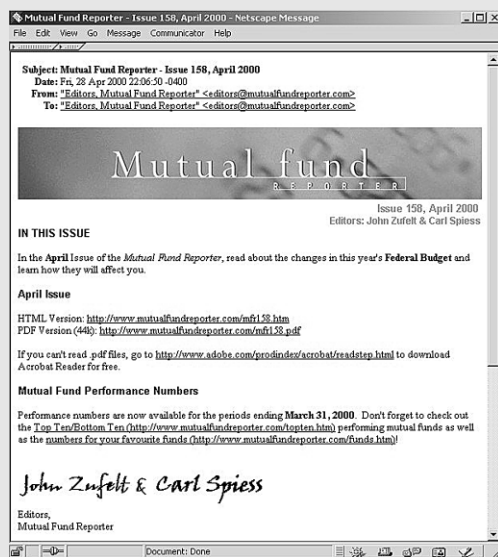
Telling Results

The results of the study serve as a caution to those who focus on past performance alone. Here is what the study found:

The top 20% of Canadian Equity funds did not generally outperform in subsequent periods. Funds in each of the five quintiles produced remarkably similar returns in future periods. The chart on the next page provides a graphic summary of the study’s findings.

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To apply to receive the newsletter via e-mail. Visit our website at: <http://www.mutualfundreporter.com/subscribe.htm>. Alternatively, you can complete the reply card enclosed or call our offices at: 1-800-387-9273. Subscribers who send in their mail-in reply cards by June 30th, 2000, will be entered in a draw to win a **free copy of Quicken 2000 software.**



1 Year Total Return

1 Talvest China Plus	201.4%
2 Talvest Global Sci & Tech	196.7%
3 Altamira Science & Technology	193.6%
4 AIM Global Technology	151.4%
5 AGF Aggressive Growth	133.6%
6 C.I. Global Technology Sector	129.1%
7 Trimark Discovery	119.6%
8 Talvest Global Small Cap	107.7%
9 Atlas Pacific Basin Value	104.3%
10 Universal World Science & Tech	99.5%

3 Year Total Return

1 Altamira Science & Technology	93.4%
2 Talvest Global Sci & Tech	91.5%
3 C.I. Global Telecom Sector	78.5%
4 AGF Aggressive Growth	77.2%
5 AIM Global Technology	75.9%
6 C.I. Global Technology Sector	69.2%
7 BPI Global Opportunities	68.8%
8 Universal World Science & Tech	54.7%
9 Janus American Equity	53.7%
10 Clarington Globl Communication	51.0%

5 Year Total Return

1 BPI Global Opportunities	51.4%
2 AGF Aggressive Growth	47.5%
3 Janus American Equity	44.5%
4 Green Line Science & Technology	36.7%
5 Spectrum United American Grwth	34.9%
6 BPI American Equity Value	34.3%
7 AIM Global Telecom Class	33.8%
8 Ethical North American Equity	33.1%
9 Spectrum United Gbl Telecomm	32.1%
10 Universal European Opp	31.9%

10 Year Total Return

1 Spectrum United American Grwth	24.7%
2 Signature American Small Cos	22.5%
3 BPI American Equity Value	22.3%
4 AGF Amer Growth Class	20.7%
5 MB Pooled American Equity	20.7%
6 Ethical North American Equity	20.3%
7 Green Line US Index Fund (\$US)	20.1%
8 McLean Budden Amer Eq Growth	19.6%
9 GBC North American Growth	19.4%
10 PH&N US Pooled Pension	18.9%

COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

1 Year Total Return

1 O'Shaughnessy US Value	-15.7%
2 Fidelity Focus Financial Servs	-12.8%
3 Dynamic Real Estate Equity	-12.5%
4 Dynamic Infinity American	-10.4%
5 AIC Value	-10.2%
6 Atlas American Large Cap Grwth	-9.0%
7 AGF Global Government Bond	-8.8%
8 Templeton Global Bond	-8.1%
9 AGF World Equity Class	-7.0%
10 Global Strategy ROTH Wrld Bond	-5.9%

3 Year Total Return

1 Fidelity Emerging Mkts Port	-15.2%
2 Ethical Pacific Rim	-13.6%
3 AGF Latin America	-9.5%
4 C.I. Asian	-9.5%
5 C.I. Latin American	-5.7%
6 AGF Asian Growth Class	-4.6%
7 AGF Emerging Markets Value	-4.3%
8 Universal Far East	-3.3%
9 Royal Asian Growth	-3.2%
10 Dynamic Real Estate Equity	-2.7%

5 Year Total Return

1 AGF India	-4.3%
2 C.I. Asian	-4.3%
3 Ethical Pacific Rim	-3.1%
4 Fidelity Emerging Mkts Port	-2.2%
5 AGF Asian Growth Class	-0.4%
6 AGF Emerging Markets Value	0.2%
7 Royal Asian Growth	0.2%
8 Universal Far East	0.5%
9 AGF Int'l Sh Term Income Class	1.5%
10 Templeton Global Bond	1.7%

10 Year Total Return

1 C.I. Short-Term Sector	3.8%
2 Atlas American Money Mkt \$US	4.2%
3 Royal Japanese Stock	5.0%
4 Templeton Global Bond	6.1%
5 AGF Japan Class	6.6%
6 Global Strategy ROTH Wrld Bond	7.3%
7 GBC International Growth	7.3%
8 C.I. Pacific Sector	7.7%
9 Talvest Asian	7.9%
10 AGF Global Government Bond	8.1%

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performance funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

1 Year Total Return

1 Capital Alliance Ventures	80.5%
2 C.I. Covington Labour-Sponsord	70.3%
3 Working Opportunity (Balanced)	70.2%
4 AIM Canadian Premier	68.2%
5 B.E.S.T Discoveries	66.9%
6 Universal Future	61.6%
7 Elliott & Page Generation Wave	60.9%
8 VenGrowth Fund	58.3%
9 Triax Growth Fund Inc.	54.8%
10 Dynamic Power Canadian Growth	51.5%

3 Year Total Return

1 AIM Canadian Premier	29.1%
2 Universal Future	28.0%
3 AIM Canada Growth Class	26.8%
4 VenGrowth Fund	25.8%
5 Altamira Capital Growth	25.4%
6 Atlas American RSP Index	23.4%
7 C.I. American RSP	22.3%
8 Working Opportunity (Balanced)	21.3%
9 Strategic Value Cdn Small Cos	20.5%
10 C.I. Global Equity RSP	20.2%

5 Year Total Return

1 AIC Advantage	25.3%
2 AIC Diversified Canada	24.5%
3 AIM Canada Growth Class	24.4%
4 AIM Canadian Premier	23.6%
5 Universal Future	22.6%
6 MB Pooled Cdn Equity Growth	22.6%
7 GBC Canadian Growth	22.1%
8 Talvest Millennium Next Gen	22.0%
9 Scotia CanAm Stock Index Fund	21.6%
10 PH&N Dividend Income	20.9%

10 Year Total Return

1 AIC Advantage	21.3%
2 GBC Canadian Growth	19.3%
3 Altamira Equity	19.2%
4 ABC Fundamental Value	19.0% #
5 Dynamic Power Canadian Growth	18.5%
6 PH&N Vintage	16.9%
7 Universal Future	16.1%
8 MB Pooled Cdn Equity Growth	15.9%
9 AGF Canadian Growth Equity	15.5%
10 Altamira Capital Growth	15.5%

1 Year Total Return

1 Scotia Precious Metals	-28.0%
2 Dynamic Precious Metals	-24.4%
3 Spectrum United Cdn Resource	-22.9%
4 Royal Precious Metals	-16.9%
5 Industrial Growth	-11.4%
6 Dynamic Canadian Real Estate	-10.5%
7 Green Line Precious Metals	-10.5%
8 Global Strategy Gold Plus	-10.5%
9 Marathon Equity	-10.0%
10 Universal Precious Metals	-9.7%

3 Year Total Return

1 Scotia Precious Metals	-26.8%
2 AGF 20/20 Managed Futures Val	-24.5%
3 Spectrum United Cdn Resource	-24.3%
4 Dynamic Precious Metals	-23.1%
5 Global Strategy Gold Plus	-22.1%
6 Universal Precious Metals	-18.4%
7 Royal Precious Metals	-18.3%
8 Altamira Resource	-16.6%
9 Green Line Precious Metals	-15.8%
10 MAXXUM Natural Resource	-15.6%

5 Year Total Return

1 Dynamic Precious Metals	-12.9%
2 Scotia Precious Metals	-12.6%
3 Global Strategy Gold Plus	-9.9%
4 Universal Precious Metals	-7.6%
5 Altamira Resource	-6.5%
6 Industrial Equity Fund Ltd.	-5.1%
7 BPI Canadian Resource Inc	-3.3%
8 Green Line Precious Metals	-2.6%
9 Green Line Resource	-2.4%
10 MAXXUM Natural Resource	-2.0%

10 Year Total Return

1 Dynamic Precious Metals	-0.2%
2 Industrial Equity Fund Ltd.	1.5%
3 Industrial Growth	3.1%
4 Green Line US Money Mkt (\$US)	4.2%
5 Royal Precious Metals	4.2%
6 BPI Canadian Resource Inc	4.7%
7 Atlas Canadian T-Bill	5.0%
8 AGF Canadian Money Market	5.1%
9 Strategic Value Money Market	5.2%
10 Ethical Money Market	5.2%

NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to provide information on funds marked #
- Figures are average rates of return for the periods ending Apr. 30, 2000
- Source data from Bell Charts, including over 3164 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP eligible funds are at least 75% Canadian content and can also be held outside RRSPs
- Performance figures include reinvested dividends and management fees have been subtracted
- Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 25% of book value

A more comprehensive view

The study shows that performance history is an unreliable guide to selecting top-performing mutual funds.

It also points in the direction of other fund variables – including the funds’ portfolio managers, fund mandates, investment styles, and risk controls – and the role they play in helping identify whether historical results can be repeated successfully over time.

Fund News

AIM Cash Performance Fund no longer accepts new purchases or switches into the fund. They will be offering a money market fund in its place.

AGF has introduced several new funds:

- AGF Aggressive Japan Class
- AGF Global Financial Services
- AGF Global Health Sciences Class
- AGF Global Resources Class
- AGF Global Technology Class
- AGF Multi Manager Class

They have also had name changes – the 20/20 has been removed from most fund names that had resulted from the previous merger of AGF and 20/20 funds.

Focusing on the fundamentals of the mutual fund money management, rather than past performance alone, is a more comprehensive way to select mutual funds. It is this philosophy that underlies our recommendations in our Investment Options Newsletter (Quarterly publication).

Advice is Key

For many investors, taking a comprehensive approach can be difficult and time consuming. That’s where we can help. By taking into account the many fund variables and the investment climate in which the funds operate, we can help you make the right investment decisions.

Do Hot Funds Stay Hot?

Or, do cold funds stay cold? The answer to both question is often no. Funds with great three-year performance did about

as well as funds with lower three-year results in subsequent years.

The ScotiaMcLeod study looking at past performance showed this: Past performance alone will not help you predict whether great (or mediocre) results are likely to be repeated. In the chart below, the initial period results show the top 20% having the best performance, the next 20% not doing as well, and so on down the line, as you would expect.

The subsequent period numbers, however, don’t differ that much among the quintiles. This means that simply selecting a fund with a hot return in the past doesn’t mean it will stay hot. Selected just on the basis of past performance, the fund is as likely to do well in subsequent years as a fund anywhere else in the performance spectrum. This all serves to reinforce our fundamental buy and hold philosophy.

