

The Thrilling 37



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It's time to unveil the Thrilling 37. It's an extremely selective annual list focused on the most important data points for achieving investment success. With more than 8,000 funds out there, you can be super choosy. So, I raise the bar on some crucial metrics, and each year, somewhere between 20 and 50 funds pop out. I don't make any changes to the metrics, so the results are simply the output of screens and not influenced by my opinion.

The whole point is to use the data points most closely linked with strong performance. Here are the tests that each fund must pass.

- 1 | Expense ratio in the category's cheapest quintile.
- 2 | Manager investment of more than \$1 million in the fund (the top rung of the investment ranges reported in SEC filings).
- 3 | Morningstar Risk rating below the High level.
- 4 | Morningstar Analyst Rating of Bronze or higher.
- 5 | Parent rating better than Average.
- 6 | Returns greater than the fund's Morningstar Category benchmark over the manager's tenure for a minimum of five years. In the case of allocation funds, I also used category averages because benchmarks are often pure equity or bond and therefore not a good test.
- 7 | Must be a share class accessible to individual investors with a minimum investment no greater than \$50,000.
- 8 | No funds of funds.

For the expense ratio, I use the prospectus adjusted expense ratio. This figure excludes costs that are not collected as fees by the manager such as leverage, shorting costs, or brokerage commissions. The reason is that it gives us a true apples-to-apples comparison.

That's not to suggest that those kinds of costs don't matter. They do matter, but, as they are not collected by the fund company and tend to bounce around, they are more noise than signal.

The Morningstar Risk measure is the risk adjustment used for the Morningstar Rating for funds. It is based on the utility theory of risk and penalizes downside volatility more than upside. I throw out high-risk funds because our studies of Morningstar Investor Returns suggest that people have a harder time using high-risk funds well.

I have not excluded funds closed to new investors. The people who bought them in the past want to know if they still qualify. I have marked those funds as closed in the table. You'll notice that some institutional share classes made the test. That's because they are available for a minimum of \$50,000 or less. Also, there are A shares — yes, a full load can undermine that fee edge, but all of the listed funds are available for no-load as well.

There From the Start

My first list came out in April 2012. That 14 funds from the original Fantastic 46 are still on the list today speaks to the staying power of these funds and the tests that they passed. Because I don't have space to write about all 37, I'll focus on those 14 funds that have endured.

Allocation

All three of our enduring allocation funds hail from American Funds. Their focus on the long game is really borne out here. The firm's formula is to have seasoned managers, outstanding analysts, a simple

Continued on Page 2

strategy, and low costs. American is particularly good at income-oriented funds like **American Funds Capital Income Builder** CAIBX and **American Funds Income Fund of America** AMECX because they are savvy investors in dividends but also responsible enough to avoid big gambles that boost yield. American Funds Capital Income Builder, a world-allocation fund, really showcases the firm's depth. The fund is 70% equity, and the equities are a pretty even split between foreign and domestic stocks. The fund tilts to value to pick up dividends, though that means it lagged until late 2020 when value began to outperform growth.

American Funds Income Fund of America is in our allocation — 70% to 85% equity category, and it, too, has lagged a bit because of its tilt to dividend stocks. Hilda Applbaum makes modest adjustments to the asset mix based on the apparent opportunities. The fund is limited to stocks with a forward dividend yield, which keeps the fund grounded in value, but management doesn't chase the highest-yielding stocks as they come with the highest risks. From Dina Perry's 1992 start date, the fund's annualized 8.9% returns have topped the category's 7.6% return.

American Funds American Balanced ABALX is also an appealing mix of stocks and bonds that quietly gets investors to their goals. Underpinning these three Silver-rated funds are low fees whose benefits show up in long-term compounding.

Bonds

Dodge & Cox Income DODIX and **Fidelity Total Bond Fund** FTBFX have long made the most of their strategies by sound issue selection and robust risk controls that keep the funds from getting too aggressive. Both are Gold-rated and super cheap funds with very experienced leaders.

Dodge & Cox went on offense in March 2020 when credit sold off, severely raising corporate exposure by month-end to 38% from 34% and up to 45% in June. It was a good call as the market later rallied. Fidelity's Ford O'Neil likewise added corporate exposure amid the stark sell-off in 2020.

International Equity

American Funds New Economy ANEFX and **American Funds New Perspective** ANWPX have been quite rewarding for shareholders. American Funds New Economy has 10- and 15-year annualized returns of 14.7% and 11.6%, respectively. American Funds New Perspective is a touch behind at 12.9% and 10.6%. American Funds New Economy has a more pronounced U.S. equity tilt and more exposure to mid-caps and the smaller end of large caps. American Funds New Perspective, with 4 times the asset base, naturally is focused on big blue chips and has a smaller U.S. weighting at 52% of assets.

U.S. Equity

Silver-rated **American Funds Growth Fund of America** AGTHX is a solid core holding that sticks to very large growth names.

Fidelity Low-Priced Stock FLPSX is another welcome sight as Joel Tillinghast has diligently done a remarkable job of stock selection even with a very large asset base. Very few could have pulled it off, and yet he just keeps doing it year after year.

T. Rowe Price Mid-Cap Growth RPMGX also feels like an old friend. Brian Berghuis been remarkably consistent for legions of shareholders. Maintaining an edge in the rapidly changing growth arena is not easy. But Berghuis and T. Rowe's analysts succeed through fundamental research that keeps them a step ahead.

Primecap's three funds subadvised for Vanguard were on my first list, and they are still going strong. The funds' relative underweighting of FAANGs (**Facebook** FB, **Apple** AAPL, **Amazon.com** AMZN, **Netflix** NFLX, and **Google** [Alphabet] GOOGL) and greater exposure to blend stocks held back returns in 2020, but they've since come back strong and boast solid performance. Primecap aims to hire the smartest people and let them figure the rest out. It's worked well, and the funds' very low fees provide a boost relative to most competitors. (The three funds it runs under the Primecap label just missed the cut because of either fees or risk.)

Finally, **Vanguard Dividend Growth** VDIGX is another example of the power of Vanguard's low costs, a great

Name	Ticker	Morningstar Analyst Rating	Morningstar Risk Rating Overall	Morningstar Category	Prospectus Adjusted Exp Ratio %	Return From PM Start Date	Index or Category Return From Start Date
American Funds American Balanced	ABALX	Silver	Below Average	Allocation—50% to 70% Equity	0.58	8.10	5.60
American Funds American Mutual	AMRMX	Gold	Low	Large Value	0.59	8.80	8.20
American Funds Capital Income Bldr	CAIBX	Silver	Below Average	World Allocation	0.61	8.50	7.00
American Funds Growth Fund of Amer	AGTHX	Silver	Average	Large Growth	0.64	12.10	11
American Funds Income Fund of Amer	AMECX	Silver	Low	Allocation—70% to 85% Equity	0.57	8.90	7.60
American Funds New Economy	ANEFX	Silver	Average	World Large-Stock Growth	0.76	11.80	10.40
American Funds New Perspective	ANWPX	Silver	Average	World Large-Stock Growth	0.76	9.60	7.50
Baird Aggregate Bond	BAGIX	Gold	Average	Intermediate Core Bond	0.30	5.30	4.80
Baird Core Plus Bond	BCOIX	Silver	Average	Intermediate Core-Plus Bond	0.30	5.80	5.10
Baird Short-Term Bond	BSBIX	Gold	Below Average	Short-Term Bond	0.30	2.80	2.40
Baird Ultra Short Bond	BUBIX	Gold	Below Average	Ultrashort Bond	0.15	1.50	1.30
Dodge & Cox Global Bond	DODLX	Gold	Average	World Bond	0.45	4.00	2.00
Dodge & Cox Global Stock	DODWX	Gold	Above Avg	World Large-Stock Value	0.62	7.30	4.70
Dodge & Cox Income	DODIX	Gold	Below Average	Intermediate Core-Plus Bond	0.42	6.60	6.00
Dodge & Cox Stock	DODGX	Gold	Above Avg	Large Value	0.52	12.00	10.20
Fidelity Asset Manager 20%	FASIX	Bronze	Below Average	Allocation—15% to 30% Equity	0.51	5.70	5.30
Fidelity Asset Manager 40%	FFANX	Bronze	Average	Allocation—30% to 50% Equity	0.53	8.10	7.40
Fidelity Growth & Income	FGRIX	Bronze	Average	Large Value	0.61	12.70	11.30
Fidelity Low-Priced Stock	FLPSX	Silver	Low	Mid-Cap Value	0.78	13.60	11.50
Fidelity Select Health Care	FSPHX	Gold	Average	Health	0.69	17.50	14.30
Fidelity Total Bond Fund	FTBFX	Gold	Average	Intermediate Core-Plus Bond	0.45	4.80	4.40
Fidelity Value Discovery	FVDFX	Bronze	Average	Large Value	0.66	12.70	12.60
📍 JPMorgan Hedged Equity	JHQAX	Bronze	Below Average	Options Trading	0.85	8.60	6.60
📍 Meridian Growth	MRIGX	Bronze	Average	Small Growth	0.86	13.90	12.90
Seafarer Overseas Gr and Income	SIGIX	Silver	Below Average	Diversified Emerging Mkts	0.93	8.30	5.30
T. Rowe Price Equity Income	PRFDX	Silver	Average	Large Value	0.65	11.60	11.30
📍 T. Rowe Price Mid-Cap Growth	RPMGX	Gold	Below Average	Mid-Cap Growth	0.73	14.30	11.50
T. Rowe Price New Asia	PRASX	Silver	Below Average	Pacific/Asia ex-Japan Stk	0.92	10.50	9.10
📍 Vanguard Capital Opportunity	VHCAX / VHCX	Gold	Above Avg	Large Growth	0.37	14.80	9.10
Vanguard Dividend Growth	VDIGX	Gold	Low	Large Blend	0.26	10.70	10.60
Vanguard Equity-Income	VEIRX / VEIPX	Silver	Below Average	Large Value	0.19	9.60	8.60
Vanguard Explorer	VEXRX / VEXPX	Bronze	Average	Small Growth	0.30	15.60	14.40
📍 Vanguard Primecap	VPMAX / VPMCX	Gold	Above Avg	Large Blend	0.31	13.80	11.60
📍 Vanguard Primecap Core	VPCCX	Gold	Above Avg	Large Blend	0.46	11.90	10.70
Vanguard US Growth	VWUAX / VWUSX	Silver	Above Avg	Large Growth	0.28	19.70	18.40
Vanguard Wellesley Income	VWIAX / VWINX	Gold	Below Average	Allocation—30% to 50% Equity	0.16	7.20	4.90
Vanguard Windsor	VWNEX / VWNDX	Silver	Above Avg	Large Value	0.19	14.00	12.80

Figures are through June 2021. Total Returns are annualized from the longest-tenured manager's start date. For Vanguard funds that had both Admiral and Investor share classes qualify, I show tickers for both, and the data is for the Admiral shares. 📍 = closed to new investors

strategy, and a skilled manager. Wellington's Donald Kilbride has produced solid returns with great downside protection. The process of finding companies that can grow their dividends means Kilbride is buying companies with sustainable growth and low levels of debt. Those are the sort of companies that usually hold up well in a bear market.

Conclusion

The funds on this list have the potential to make rewarding long-term investments that you can depend on. When you focus on the most important aspects of a fund, you find that a lot of pretenders fade away. 📊

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Morningstar Analyst Rating™ for Funds

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For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to:

<http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>.

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Results as of June 30, 2021

Fund name	Inception date	Average annual total returns (%)				Expense ratio (%)
		One year	Five years	10 years	Lifetime	
American Balanced Fund® (ABALX)	7/26/75	15.55	9.65	9.70	10.58	0.58
American Mutual Fund® (AMRMX)	2/21/50	21.14	10.56	10.73	11.53	0.59
Capital Income Builder® (CAIBX)	7/30/87	15.59	5.86	6.31	8.83	0.61
The Growth Fund of America® (AGTHX)	12/1/73	34.74	19.60	15.28	14.00	0.64
The Income Fund of America® (AMECX)	12/1/72	19.47	7.82	8.13	10.72	0.57
The New Economy Fund® (ANEFX)	12/1/83	30.55	18.99	14.54	11.85	0.76
New Perspective Fund® (ANWPX)	3/12/73	37.41	17.86	12.67	12.63	0.76

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Returns greater than one year were annualized. Expense ratios are as of each fund's prospectus available at the time of publication. When applicable, investment results reflect fee waivers and/or expense reimbursements, without which results would have been lower. Please see capitalgroup.com for more information.

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If used after September 30, 2021, this article must be accompanied by a current American Funds quarterly statistical update.

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