

The Forbes Honor Roll – Why Bother?

a history of failure

Forbes Magazine’s annual honor roll of mutual funds is met with great anticipation by much of the investing public. After all, the fund research from such a prestigious publication should provide investors with a great opportunity to assemble a most prosperous portfolio; but, is that how it turned out? Did Forbes Magazine succeed in providing investors with an outstanding tool with which to choose mutual funds? Answer in a word: NO!

From 1990 thru 2010, Forbes placed 292 funds on its most prestigious annual Honor Roll, with annual qualified listings of 10 to 20 funds. Over the years, the honor roll actually consisted of only 104 funds, with many of the funds making repeat appearances. Here they are.

Fund	Appearances	Fund	Appearances
AXP New Dimensions	2	Fidelity Puritan	1
Berger Growth	1	FMI Focus	1
Bergstrom Capital	4	FPA Capital	3
BlackRock International Opps	1	FPA Paramount	1
Bruce Fund	6	Franklin Growth	3
Calamos Growth	3	Fundamental Investors	3
CGM Focus	1	Gabelli Asset	3
Clipper Fund	4	Gabelli Value	1
Columbia Growth	1	General Securities	1
Columbia Value & Restructuring	1	Guardian Park Avenue	6
Crabbe Huson Special	1	Heartland Value	2
Davis New York Venture	4	Heritage Capital Appreciation	1
Dean Witter Dividend Growth	3	IAI Regional	3
Delafield Fund	4	IDS New Dimensions	2
Dodge & Cox Stock	10	Income Fund of America	2
Dreyfus Appreciation	5	Investment Co of America	3
Eaton Vance Total Return	1	J Hancock Sovereign Investors	1
EuroPacific Growth	1	Janus Fund	4
Evergreen Limited Market	1	Keeley Small Cap Value	6
Excelsior Value & Restructure	1	Kemper-Dreman High Return	1
FAM Value	1	Lazard Emerging Markets	1
Federated Stock Trust	2	Legg Mason Value Trust	1
Fidelity Contrafund	1	Lindner Fund	3
Fidelity Destiny	3	Longleaf Partners	3
Fidelity Dividend Growth	1	Mairs & Powers Growth	11
Fidelity Fund	1	Meridian Value Fund	2
Fidelity Low-Priced Stock	2	Merrill Lynch Basic Value	2
Fund	Appearances	Fund	Appearances
Merrill Lynch Capital	2	Prudential Equity	1

Merrill Lynch Pacific	2		Royce Heritage	1
Morgan Stanley American Opps	1		Rydex Mid Cap Value	1
Morgan Stanley Div Growth	1		Salomon Brothers Opportunity	2
MSDW American Opportunities	2		Scudder Dreman High Return Equity	2
Muhlenkamp Fund	7		Scudder International	2
Mutual Beacon	4		Selected American Shares	2
Mutual Benefit	3		Sentinel Common Stock	3
Mutual Qualified	2		Shearson Appreciation	4
Mutual Shares	2		SIT Large Cap Growth	2
Nationwide Growth	1		Smith Barney Aggressive Growth	1
Neuberger Berman Focus	1		Smith Barney Fundamental Value	1
New Economy	1		SoGen International	3
New England Growth	2		Sound Shore	3
New Perspective	4		Source Capital	3
Nicholas Fund	7		Stratton Small Cap Value	3
Northeast Investors Growth	1		Strong Opportunity	1
Oakmark International Small Cap	1		T Rowe Price Mid Cap Growth	1
Oppenheimer Growth	1		T Rowe Price Small-Cap Value	2
Osterweis Fund	6		T. Rowe Price Intl Stock	7
Papp Stock	1		Templeton Foreign	2
Perritt Micro Cap	1		Templeton Growth	1
Phoenix Growth	3		Third Avenue Value	5
Pilgrim Corporate Leaders	1		Thompson Plumb Growth	2
Pioneer Fund	1		Vanguard Emerging Stock Mkt	1
Principal West Coast Equity	1		Wasatch Micro	1

The funds chosen most often by Forbes to be on the list are (minimum 5 appearances):

Fund	Appearances
Mairs & Powers Growth	11
Dodge & Cox Stock	10
Weitz Value	10
United Income	8
Muhlenkamp Fund	7
Nicholas Fund	7
T. Rowe Price Intl Stock	7

Fund	Appearances
Washington Mutual Investors	7
Bruce Fund	6
Guardian Park Avenue	6
Keeley Small Cap Value	6
Osterweis Fund	6
Dreyfus Appreciation	5
Third Avenue Value	5

Surprisingly, it would be difficult to build a properly allocated portfolio out of the honor roll funds, as they represent only a few of the different investment categories.

The simple mathematical odds of a fund achieving a certain performance quartile are 25/25/25/25; however

1. How often did an honor roll fund annually find itself in either the top or bottom quartile of its peer group?
2. How did the honor roll funds perform during the three years after their inclusion on the list?
3. How did these same funds make out five years after inclusion on Forbes list?

While the Forbes Honor Roll did produce some stellar fund selections, especially the 1996 list, Forbes Magazine's ability to call out top fund performance in advance, either short-term or long-term, was not much better than that of a coin toss!

1. Over the 23 years studied, Forbes had 1,491 opportunities to demonstrate its fund selection prowess. The annual in-category performance of its recommendations is as follows:

top quartile	2nd quartile	3rd quartile	bottom quartile
27%	24%	22%	27%
408	365	326	392

That's a first/worst ratio of 51/49, which, once again, has all the success of a coin flip!

2. Three years after inclusion on the list, 27% of the honorees made it to the top quartile of their category, while 25% landed at the bottom. A small majority (54%) finished in the top half and a large minority (46%) finished in the bottom half.
3. Five years after inclusion on the list, 27% of the honorees made it to the top quartile of their category, while 26% landed at the bottom. The 5-year post performance produced a dismal top half/bottom half ratio of 50/50.

The annual charts follow:

Here are the results of the Forbes Honor Roll three years after inclusion on the list:

Year	Funds	1st Q	2nd Q	3rd Q	4th Q	top half/bottom half ratio
1990	20	4	7	6	3	55/45
1991	20	5	5	5	5	50/50
1992	19	3	7	7	2	53/47
1993	18	6	6	3	3	67/33
1994	20	3	7	4	6	50/50
1995	20	4	6	4	6	50/50
1996	17	4	5	6	2	53/47
1997	16	5	5	2	4	63/37
1998	11	5	2	2	2	64/36
1999	15	4	3	3	5	47/53
2000	15	5	5	1	4	67/33
2001	10	5	3	1	1	80/20
2002	10	3	5	0	2	80/20
2003	10	3	0	2	5	30/70
2004	10	1	1	2	6	20/80
2005	10	4	1	2	3	50/50
2006	10	3	1	4	2	40/60
2007	10	4	1	2	3	50/50
2008	10	3	2	1	4	50/50
2009	10	4	4	1	1	80/20
2010	10	1	2	3	4	30/70
Overall	291	79	78	61	73	54/46
Percentages		27%	27%	21%	25%	

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Year	Funds	1st Q	2nd Q	3rd Q	4th Q	top half/bottom half Ratio
1990	20	5	6	6	3	55/45
1991	20	5	7	4	4	60/40
1992	19	3	5	6	5	42/58
1993	18	6	5	4	3	61/39
1994	20	3	4	5	8	35/65
1995	20	6	5	7	2	55/45
1996	17	7	7	2	1	82/18
1997	15	5	5	2	3	67/33
1998	11	5	0	5	1	45/55
1999	15	4	4	2	5	53/47
2000	15	5	2	1	7	46/54
2001	10	3	2	3	2	50/50
2002	10	3	1	3	3	40/60
2003	10	2	0	3	5	20/80
2004	10	0	2	4	4	20/80
2005	10	3	2	4	1	50/50
2006	10	3	1	1	5	40/60
2007	10	3	3	0	4	60/40
2008	10	4	1	1	4	50/50
2009	10	2	4	3	1	60/40
2010	10	1	0	5	4	10/90
Overall	260	78	66	71	75	50/50
Percentages		27%	23%	24%	26%	