Sell or Keep: Janus Funds

Mutual funds have a black eye now, having been accused and found guilty of practices that make money for them, but rip off their shareholders. The most common crime against their investors has been market timing: they have "sold the right" to institutional customers to buy or sell their mutual fund shares at the *already-established* NAV (Net Asset Value)—the price determined at the end of each trading day—which should only be used to calculate purchases and sales entered *before* the close of the trading day. The advantage made available to preferred customers is one of buying or selling after news has been released that is certain to drive the shares of the fund up or down on the next trading day.

There have been revealed several forms of illicit trading among mutual fund companies, but for this article suffice it to say that Janus Funds has been guilty of the above-described market-timing crime.

Janus used to be a respected fund company, one that I recommended more often than any other fund family. If this violation against its own shareholders isn't enough reason to compel you to sell the Janus Fund you own, how do you decide to keep or sell these former recommendations: Janus Core Equity, Janus Mercury, and Janus Olympus:

Janus Core Equity Fund

Then: In 1999, before the recession, this fund was up only 38.5%, a fine performance, but nothing compared to the performances of more aggressive growth funds. But during the three recession years—2000, 2001, and 2002—Janus Core Equity avoided troubled industries and was down only 7.2%, 12.1%, and 18% respectively, better than the S&P and the Large Blend category two of the three years. The fund was required to invest 65% of assets in income-producing securities; it charged no load fees; and the expense ratio was low—under 1%.

Now: The fund still charges no load fees, and the expense ratio is still below 1%. But the income-producing requirement is no longer in play. Manager Karen Reidy buys companies that consistently grow earnings, increase return on capital, and have strong free cash flow. The fund owns 85 stocks, with 12.5% in media companies, another 22% in technology, and 15% in financial stocks. During this year's market rally, the fund is up 16.5% through October, compared to the S&P's 21%+ increase, and ranks in the bottom 15% of its category.

Sell: I don't like the prospects for growth that comes from owning a mutual fund. Period. More growth can probably be found by good stock-picking. This fund may continue to rise with the overall market, but it has violated its shareholders' trust and may face severe legal action.

Janus Mercury Fund

Then: This fund was very aggressive, investing in rapid growers that dominated in their specialties, no matter how highly priced those stocks were. Warren Lammert managed the fund for a long time; he loved Enron, Nokia, and AOL, and the fund was overweight in technology stocks. The fund was up 96% in 1999. Like all Janus funds it charged no load fees.

Now: David Corkins took over as manager in February 2003, after managing Janus' Growth and Income fund for a long time. He is more sensitive to company valuations than his predecessor, but doesn't mind buying fast-growing stocks. The fund is up 22% this year

through October. Of its 68 stocks 23% are invested in media stocks, 17% in other tech companies, 20% in financial, and 13% in healthcare. The expense ratio is still under 1%, and the portfolio is similar to that of Janus Core Equity.

Sell: Same as Janus Mercury: I don't like the prospects for growth that comes from owning a mutual fund. More growth can probably be found by good stock-picking. This fund may continue to rise with the overall market, but it has violated its shareholders' trust and may face severe legal action at any time.

JANUS OLYMPUS FUND

Then: Janus Olympus was a growth fund favorite, and like all Janus funds charged no load fees and had a reasonable expense ratio. Manager Claire Young would buy companies that didn't have any earnings if they were growing and in a growth sector. She would overweight sectors she liked and take large positions in stocks she liked. She was very good at it: the fund was up 100% in 1999.

Now: Claire Young is still manager, but she has adjusted to the times, reducing the fund's risk by diversifying the portfolio and increasing its holdings to 91 companies currently. She focuses on firms with free cash flow. It's a much more moderate fund than before. The portfolio still has 40% in tech stocks, but 23% in the less-explosive consumer sector, 15% in health care, and 13% in financials. The fund is up 26% through October of this year; it still charges no load fees, and the expense ratio is under 1%.

Sell: I like this fund best of the three reviewed—for the stocks it owns, and because I like the manager's strategy. Still, it's a mutual fund with very serious potential problems.

Final Comments: All three of these funds have done well this year, but not exceptionally well when compared to the overall market performance. Janus still doesn't charge load fees, and these three funds have good expense ratios, all under 1%. You could hang onto them as long as they continue to perform in line with the rallying market. But any news of legal action against Janus, or the sudden liquidation by the funds' largest shareholders, could send the NAVs down dramatically in a short amount of time. Unless you have other reasons that make selling the fund a worse problem—I can think of none that would justify holding the funds—I think you would be better off selling the fund and investing the proceeds in solid individual companies.

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8 November, 2003