



How to Handicap a Reopening Mutual Fund

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THIS YEAR, 75 funds with some \$230 billion in assets have reopened to **new investors**, according to Morningstar. The list of once-coveted funds now aching for fresh dollars is lengthy, including **Dodge & Cox Stock (DODGX)**, **Lionleaf Partners (LLPFX)** and **Fidelity Contrafund (FCNTX)**.

But **mutual funds** reopen for a variety of reasons, some good and others not. Here's a primer on things to consider before buying into a newly reopened fund.

Why Mutual Funds Close

Mutual funds generally close to new investors because too much money is coming in. This often happens to funds in rallying asset classes, such as when **small-cap stocks** enjoyed a years-long run earlier this decade. During that time, more small-cap funds closed.

As money flows in and market prices go up, **fund managers** can have a tough time finding enough things to buy. Rather than purchasing stocks they don't have a lot of conviction in, funds will instead shut their doors. (Existing fundholders can usually still make contributions.) So while more cash flow sounds good, if you're buying right before a fund closes it "usually means you're getting in too late," says Morningstar fund analyst Russ Kinnel.

Why Mutual Funds Reopen

In turn, funds often reopen for the opposite reason: Too little money is coming in. This can be for several reasons and more tricky to figure out.

The best reason is because managers are finding more securities to buy and don't have any they want to sell. Usually, this is when prices are low or falling. In addition, in bear markets investors tend to flee **stock funds**. To raise cash, funds can either sell existing holdings or reopen to new money. This isn't a bad thing so long as funds aren't losing so many shareholders that their survival is in question. "It's a contrarian sign because people usually get in and out of funds at the wrong time," Kinnel says. "Typically, funds reopen when an asset class is doing poorly."

Other funds may reopen because their shareholders are leaving the market for retirement.

Fidelity Contrafund and Low-Priced Stock are two **recent examples**; more than 80% of their assets are derived from retirement accounts.

But on the more negative end, watch out if funds are losing money because institutional holders are rebalancing their portfolios. It might be a sign that these big and often well-informed investors are moving away from asset classes they expect to underperform. Also be skeptical of funds that reopen purely to grow in size — and thus reap more profits via fees.

Bottom line: "You want to understand the reasons why they've re-opened" before buying, Kinnel says.

To Buy or Not to Buy

As with all investments, fundamentals matter. Funds you wanted three years ago but were locked out of might not make sense today. Once you have a good handle on why a fund is reopening, "the main question is, does it really make sense in your portfolio now," says Lisa Kirchenbauer, a financial planner in Arlington, Va.

This means looking at the fundamentals of the **asset classes** the fund invests in. For instance, several foreign small-cap and midcap value funds have reopened this year. But after **big gains** for this group from 2003 to 2006, and mounting evidence of a prolonged global economic slowdown, the next few years will likely be more subdued. In other words, there's probably no reason to rush in now.

Also, make sure the reopening fund hasn't changed its portfolio manager or its investment strategy. If so, you have to throw past performance data out the window. Check out the new manager's record and determine if the direction the fund is going in fits your needs. Check fees as well to see if they've gone up or down. Much of this information can be gleaned from fund web sites and prospectuses.

Lastly, make sure you don't buy into a fund right before it makes a year-end **capital gains distribution**. If you do you'll have a new tax bill to go along with your new portfolio.