

The Failure of Even Long-Term Performance as a Fund Selector

What became of the top performing funds 5 years later?
2009-2013 vs 2014-2018

While many investors and financial publications alike gravitate towards funds with a recent hot past — like last year — investment professionals prefer to look at the consistency of long-term past performance. But is long-term past performance any better at predicting future mutual fund success? I have been researching the answer since 1991, providing a consistently troubling answer – NO!

Here, I examine the latest performance of equity mutual funds during the 5-year period 2009-2013, ranking the funds within each category according to their total return for the period. I then ranked them for the following 5-year period 2014-2018. This study supports the conclusion of every other study I have conducted – selecting funds based on past performance – even long-term success – is not healthy for the investors or their financial advisor!

— long-term returns are no better at predicting future fund success than a coin toss —

The following chart shows the follow up 5-year return rank of the **top quartile equity funds of the initial 5-year period:**

Top Quartile Follow Up Performance

Funds	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
463	26%	21%	25%	28%

Once again, long-term past performance turned out to be a poor predictor of future performance, where **only 47% of the top quartile funds of the first period delivered even top half results in the following period!**

Here are the in-category results:
(minimum 5 funds from the first 5-year period)

Category	FUNDS	1st Q	2nd Q	3rd Q	4th Q
EMERGING MARKET EQUITY	18	2	4	10	2
FINANCIAL SERVICES	5	1	1	0	3
FOREIGN LARGE CAP BLEND	27	10	5	5	7
FOREIGN LARGE CAP GROWTH	15	3	4	1	7
FOREIGN LARGE CAP VALUE	10	2	2	2	4
FOREIGN MID/SMALL CAP GROWTH	7	2	0	1	4
GLOBAL LARGE CAP	23	5	7	4	7
GLOBAL REAL ESTATE	8	4	1	0	3
HEALTHCARE	7	2	2	1	2
LARGE CAP BLEND	35	6	7	6	16
LARGE CAP GROWTH	32	10	7	9	6
LARGE CAP VALUE	17	3	1	5	8
MID CAP BLEND	65	15	10	24	16
MID CAP GROWTH	59	26	12	10	11
MID CAP VALUE	52	9	15	14	14
REAL ESTATE	10	5	0	3	2
SMALL CAP BLEND	20	2	6	6	6
SMALL CAP GROWTH	26	8	3	8	7
SMALL CAP VALUE	17	3	5	3	6
TECHNOLOGY	10	1	5	4	0
	463	119	97	116	131
		26%	21%	25%	28%

Check out these 118 *first-to-worst* performers. Did wholesalers encourage you to purchase any of them in 2013? Why not? After all, they had killed it for the previous three years! But maybe there is a reason they are called *PEAK* performers. After all, where can you go from the peak?

TOP Performers of 2009-2013 Who Delivered BOTTOM Quartile Results for 2014-2018	
Aberdeen International RI Estt Eq Instl	Real Estate
Adirondack Small Cap	Small Cap Value
Aegis Value	Small Cap Value
AI Frank Inv	Large Cap Value
AllianzGI NFJ International Value Instl	Foreign Large Cap Value
AllianzGI Ultra Micro Cap Institutional	Small Cap Growth
American Beacon Large Cap Value Instl	Large Cap Value
AMG Managers Fairpointe Mid Cap I	Mid Cap Value
Artisan International Institutional	Foreign Large Cap Growth
Artisan International Small/Mid Investor	Foreign Mid/Small Cap Growth
Artisan Mid Cap Institutional	Mid Cap Growth
Azzad Ethical	Mid Cap Growth
BlackRock Advantage Global Institutional	Global Allocation
BlackRock Advantage US Total Mkt Instl	Large Cap Blend
BlackRock International Instl	Foreign Large Cap Blend
BMO Small-Cap Growth I	Small Cap Growth
Bogle Investment Mgmt Sm Cp Gr Instl	Small Cap Blend
Bridgeway Ultra-Small Company	Small Cap Value
Broadview Opportunity	Small Cap Blend
Buffalo Emerging Opportunities	Small Cap Growth
Calamos International Growth I	Foreign Large Cap Growth
Cambiar Global Ultra Focus	Global Allocation
Cambiar Small Cap Instl	Small Cap Blend
Causeway Global Value Inst	Global Allocation
ClearBridge Aggressive Growth I	Large Cap Growth
ClearBridge International Value I	Foreign Large Cap Value
ClearBridge International Value IS	Foreign Large Cap Value
ClearBridge Value I	Large Cap Blend
Columbia Select Global Growth Inst	Global Allocation
Columbia Select Large Cap Growth Inst	Large Cap Growth
CornerCap Large/Mid-Cap Value	Large Cap Value
Cove Street Capital Small Cap Val Instl	Small Cap Blend
Delafield Fund	Small Cap Value
Delaware Select Growth Instl	Large Cap Growth
Delaware US Growth Instl	Large Cap Growth
Diamond Hill Financial Long-Short I	Financial Services

Dreyfus Opportunistic Midcap Value I	Mid Cap Blend
Dreyfus Opportunistic Small Cap Inv	Small Cap Growth
DWS Small Cap Growth Inst	Small Cap Growth
Fidelity Biotechnology I	HealthCare
Fidelity Capital Appreciation	Large Cap Growth
Fidelity Leveraged Co StkI	Mid Cap Blend
Fidelity Leveraged Company Stock	Mid Cap Blend
Fidelity New Millennium	Large Cap Blend
Fidelity Real Estate Income	Real Estate
Fidelity Select Biotechnology	HealthCare
Fidelity Select Brokerage & Invmt Mgmt	Financial Services
Fidelity Small Cap Discovery	Small Cap Blend
Fidelity Value Strategies I	Large Cap Value
Gabelli Asset I	Large Cap Blend
Gabelli Value 25 I	Mid Cap Blend
Guggenheim Small Cap Value Inst	Small Cap Value
Hancock Horizon Diversified Intl Instl	Foreign Large Cap Blend
Harbor International Institutional	Foreign Large Cap Blend
Hartford Quality Value I	Large Cap Value
Hodges Small Cap Institutional	Small Cap Blend
Hodges Small Cap Retail	Small Cap Blend
Hotchkis & Wiley Mid-Cap Value I	Mid Cap Value
HSBC Opportunity I	Mid Cap Growth
Invesco Endeavor Y	Mid Cap Blend
Invesco Mid Cap Growth Y	Mid Cap Growth
Invesco Small CapValue Y	Small Cap Value
Janus Henderson VIT Overseas Instl	Foreign Large Cap Blend
JHancock Classic Value I	Large Cap Value
Keeley Small-Mid Cap Value I	Small Cap Blend
Kinetics Internet No Load	Large Cap Growth
Kirr Marbach Partners Value	Mid Cap Growth
Litman Gregory Masters Intl Instl	Foreign Large Cap Blend
Litman Gregory Masters Smlr Coms Instl	Small Cap Blend
Longleaf Partners	Large Cap Blend
MainStay Epoch US All Cap I	Large Cap Blend
MainStay MacKay International Opports I	Foreign Large Cap Value
MassMutual Premier International Eq R5	Foreign Large Cap Growth
Matthew 25	Large Cap Blend
Midas Magic	Large Cap Blend
Morgan Stanley Inst Small Co Gr I	Small Cap Growth
Natixis Oakmark Y	Large Cap Blend
Nicholas	Large Cap Growth
Nuveen Mid Cap Growth Opps I	Mid Cap Growth
Nuveen NWQ Small/Mid-Cap Value I	Small Cap Blend
Oakmark Global Investor	Global Allocation

Oakmark Global Select Investor	Global Allocation
Oakmark International Investor	Foreign Large Cap Blend
Oakmark Select Investor	Large Cap Blend
Oppenheimer Global Focus Y	Global Allocation
Oppenheimer International Growth Y	Foreign Large Cap Growth
Pacific Advisors Small Cap Value I	Small Cap Blend
Perritt Ultra MicroCap	Small Cap Blend
PGIM Jennison Equity Income Z	Large Cap Blend
PGIM Jennison Equity Opportunity Z	Large Cap Blend
PGIM Jennison Financial Services Z	Financial Services
PGIM Jennison Value Z	Large Cap Value
REMS Real Estate Value Opportunity Instl	Real Estate
River Oak Discovery	Small Cap Blend
Salient Global Real Estate Instl	Real Estate
Saratoga Large Capitalization Value I	Large Cap Blend
Schneider Small Cap Value	Small Cap Value
Segall Bryant & Hamill Fdml Int'l Sm Cp Ret	Foreign Mid/Small Cap Growth
Snow Capital Long/Short Opportunity I	Mid Cap Value
TCW Relative Value Dividend Apprec I	Large Cap Value
TCW Relative Value Large Cap I	Large Cap Value
Third Avenue Real Estate Value Instl	Real Estate
Thompson LargeCap	Large Cap Blend
Thornburg Core Growth I	Large Cap Growth
Thornburg International Growth I	Foreign Large Cap Growth
TIAA-CREF International Eq Instl	Foreign Large Cap Blend
TIAA-CREF Large-Cap Value Instl	Large Cap Value
TIAA-CREF Mid-Cap Growth Instl	Mid Cap Growth
Tocqueville Select	Small Cap Value
Touchstone Focused Instl	Large Cap Blend
USAA Value Institutional	Large Cap Value
Victory Munder Multi-Cap Y	Large Cap Growth
Victory RS Partners Y	Small Cap Blend
Weitz Hickory	Mid Cap Blend
Weitz Partners Value Investor	Large Cap Growth
William Blair Instl International Gr	Foreign Large Cap Growth
William Blair International Sm Cap Gr I	Foreign Mid/Small Cap Growth
William Blair Intl Small Cap Gr Instl	Foreign Mid/Small Cap Growth

I am sure you completely ignored the cellar dwellers of the first period. I cannot imagine the wholesaler for Janus visiting your office in 2013 and recommending *Janus Small Cap Value* with the pitch “It was the worst-performing small cap fund of the last 5 years” – It was! Yet it went on to be the top-producing small cap value fund of the next 5 years!

While only 26% of top quartile performers from the first 5 years delivered top quartile results in the follow period, 28% of bottom dwellers from the first period produced top quartile results in the following 5 years.

Bottom Quartile Follow Up Performance

Funds	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
600	26%	25%	24%	26%

Check out these 101 worst-to-first performers.

BOTTOM Performers of 2009-2013 Who Delivered TOP Quartile Results for 2014-2018	
Alger Balanced I-2	Allocation-Moderate
American Century Equity Income	Large Cap Value
American Century Focused Dynamic Gr I	Large Cap Growth
American Century Mid Cap Value I	Mid Cap Value
AMG River Road Small Cap Value I	Small Cap Blend
AMG River Road Small-Mid Cap Value I	Small Cap Blend
Artisan Emerging Markets Inst	Emerging Markets
Ave Maria Growth	Mid Cap Growth
BlackRock Equity Dividend	Large Cap Value
BlackRock Large Cap Focus Growth Instl	Large Cap Growth
BlackRock Technology Opportunities Instl	Technology
BMO LGM Emerging Markets Equity I	Emerging Markets
Boston Trust Asset Management	Allocation-Aggressive
Brandes International Equity I	Foreign Large Cap Value
Calvert International Opportunities I	Foreign Small/Mid Cap Blend
Calvert Small-Cap I	Small Cap Blend
Carillon Scout Small Cap I	Small Cap Growth
Cohen & Steers Global Realty I	Real Estate
Columbia Capital Allocation Mod Inst	Allocation-Conservative
Columbia Greater China Inst	China

Columbia Select Large Cap Equity Inst	Large Cap Blend
Columbia Seligman Comms & Info Inst2	Technology
Columbia Small Cap Value I Inst	Small Cap Value
Commerce Growth	Large Cap Growth
Commerce MidCap Growth	Mid Cap Growth
Copley Fund	Large Cap Value
CRM Mid Cap Value Instl	Mid Cap Blend
Cullen High Dividend	Large Cap Value
Davis Real Estate Y	Real Estate
Delaware Mid Cap Value I	Mid Cap Value
Delaware Value A	Large Cap Value
Dreyfus International Stock I	Foreign Large Cap Growth
DWS CROCI Equity Dividend	Large Cap Value
DWS Emerging Markets Equity Inst	Emerging Markets
Eaton Vance Global Income Builder I	Global Allocation
FAM Equity Income Investor	Mid Cap Blend
Federated MDT Small Cap Growth Instl	Small Cap Growth
Fidelity Overseas	Foreign Large Cap Growth
Fidelity Select Medical Tech and Devcs	HealthCare
Frost Growth Equity Inst	Large Cap Growth
FundX Tactical Upgrader	Long-Short
FundX Upgrader	Allocation-Aggressive
Glenmede Strategic Equity	Large Cap Blend
Goldman Sachs Intl Eq Insghs Instl	Foreign Large Cap Blend
Goldman Sachs Small Cp Val Insghs Instl	Small Cap Value
Government Street Mid-Cap	Mid Cap Blend
Harbor Large Cap Value Instl	Large Cap Blend
Harbor Small Cap Value Instl	Small Cap Blend
Hartford MidCap	Mid Cap Growth
Hartford Schrodgers US Small Cap Opps	Small Cap Blend
Hartford Schrodgers US Small/Mid Cap Opps	Mid Cap Blend
Heartland Select Value Institutional	Mid Cap Value
ICON Equity Income S	Allocation-Aggressive
Ivy Small Cap Core I	Small Cap Blend
Janus Henderson Small Cap Value L	Small Cap Value
Jensen Quality Growth I	Large Cap Growth
JPMorgan Emerging Markets Equity I	Emerging Markets
Lazard US Equity Concentrated Instl	Large Cap Blend
Lord Abbett Affiliated	Large Cap Value
Madison Dividend Income	Large Cap Value
Manning & Napier Disciplined Value	Large Cap Value

MFS Global Total Return I	Global Allocation
Mondrian International Equity	Foreign Large Cap Value
Neuberger Berman Small Cap Growth Instl	Small Cap Growth
Northern Small Cap Value	Small Cap Value
Nuveen Mid Cap Value I	Mid Cap Value
PACE International Equity Y	Foreign Large Cap Blend
Paradigm Select	Small Cap Blend
Paradigm Value	Small Cap Blend
Parametric Tax-Managed Intl Eq Instl	Foreign Large Cap Blend
Pear Tree Quality Institutional	Large Cap Blend
PIMCO Global Multi-Asset Instl	Global Allocation
PIMCO RAE Plus	Large Cap Value
Pioneer Equity Income	Large Cap Value
Principal Large Cap Value	Large Cap Value
Prospector Opportunity	Mid Cap Blend
Putnam Emerging Markets Equity Y	Emerging Markets
QS Global Equity I	Global Eq
QS International Equity I	Foreign Large Cap Blend
Quaker Small/Mid-Cap Impact Val Instl	Small Cap Value
Queens Road Small Cap Value	Small Cap Value
Russell Inv Sustainable Equity Y	Large Cap Blend
Schwab Balanced	Allocation-Moderate
SEI Global Managed Volatility F (SIMT)	Global Equity
Sextant International	Foreign Large Cap Growth
State Farm Balanced	Allocation-Moderate
TCM Small Cap Growth	Small Cap Growth
Thrivent Small Cap Stock S	Small Cap Growth
USAA Capital Growth	Global Eq
Value Line Capital Appreciation Investor	Allocation-Aggressive
Value Line Larger Companies Focused Inv	Large Cap Growth
Value Line Mid Cap Focused	Mid Cap Growth
Vanguard Health Care Index Admiral	HealthCare
Vanguard MegaCap Value Index	Large Cap Value
Vanguard Utilities Index Adm	Utilities
Victory INCORE Investment Grd Convert I	Convertible Securities
Victory Trivalent Intl Fd-Core Eq I	Foreign Large Cap Blend
Virtus KAR Mid-Cap Growth I	Mid Cap Growth
Virtus KAR Small-Cap Core I	Small Cap Growth
Walden Asset Management	Allocation-Aggressive
Wells Fargo International Equity Inst	Foreign Large Cap Value

Please, for the sake of your clients and your practice, look beyond past performance. Consider the 11 common traits of successful fund performance that my long-time research proves works – consistently since 1997.

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