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Pick the Funds with Stars

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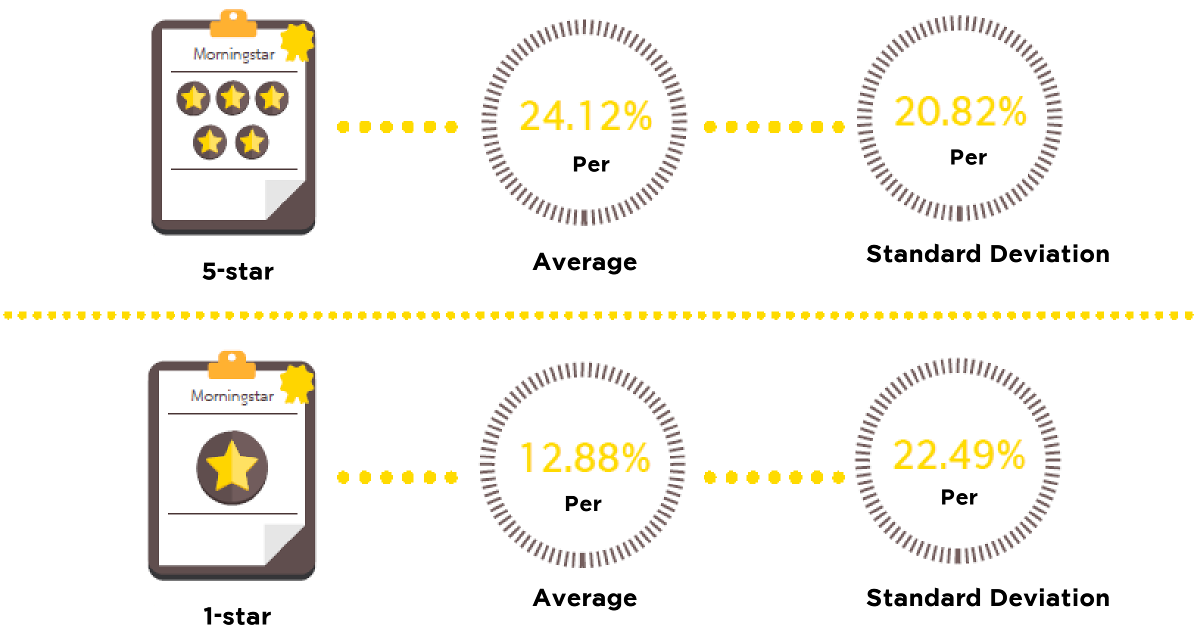
"Aren't you tired" of directionless investment, which diverts you away from your planned investment goal? For example, seeing only the short-term investment will unconsciously drive you away from the desired goal. One of the obvious examples is looking for the **"best performing fund"** of the year to invest in.

"Aren't you tired" of not knowing which funds you should invest in even though there are more than 1,400 funds offered by **"23 asset management companies"**? Eventually, instead of looking at the **"performance"** of a fund that yields a **"return that is worth the risk"**, you decide to pick the funds mainly because it is **"convenient"** to invest in and offers **"premiums"** and **"promotions"**.

"Wouldn't it be better" if you adjust your perception? Furthermore, you can receive **"help"** from **"star-rated funds"**, the easy-to-understand fund rating from an impartial rating institute like **"Morningstar"**, which will help you choose the funds and gain **"advantage"** in your investment."

How to pick a fund that is worth the risk

Morningstar's **"Star Rating"** mainly reflects the picture of **long-term investment,** over a span of three to five years. Let's look at the actual information on the past performance of the **"large cap fund segment",** as of November 30, 2014. Looking back at the past three years, the **"five-star funds"** yielded an average return of 24.12% a year, while the S.D. was 20.82% a year. However, the **"one-star funds"** yielded an average return of 12.88% a year, while the S.D. was 22.49% a year.



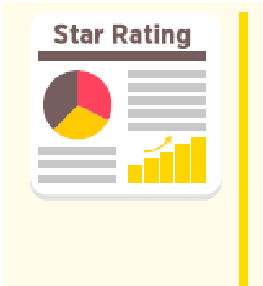
"The historical data reveals that the **"five-star"** large cap funds generated a higher return than the **"one-star"** large cap funds in the past three years. In addition, **"five-star"** funds had a lower "S.D." than "one-star" funds in the past three years.

Based on the data over the past five years, this picture remains true. **"Five-star"** funds yielded an average return of 24.13% a year, while its annual S.D. was 18.92%. **"One - star"** funds yielded an average return of only 12.45% a year, while its annual S.D. was 19.54%.

"This means … in the case that investors choose to invest in "large cap funds", when comparing "five-star funds" which steadily yield a good return that is worth the risk in the long-term, with "one-star funds", whose long-term return between three and five years falls at the bottom of the table, you will see that difference in average return is 12 – 13% annually while "S.D." dropped by 1.07 – 1.36% a year as well. So, if the investor focuses too much on short-term return, the investor may miss out on a good opportunity in the long term. If they care for the "premiums" that is worth about 0.02% of the investment value and go for "one-star funds", it means they will lose their return. As a result, spending time screening the funds should be more beneficial than looking for a bargain or premiums only."

Based on the historical data, when the "stock market plunged"; for example, from August 1 to 11, 2011, after the rank of U.S. government bonds was degraded and there was a concern about European debt crisis, the SET index from the beginning of 2011 to August 11, 2011, "declined by 6.30%". Even so, "five-star large cap funds" generated a return of -6.05%, while "four-star funds" generated -5.96%, and it was -6.50% for "one-star funds" and -6.43% for "two-star funds."

We can see that bad news affected the stock market, causing its downturn and the negative performance of all equity funds. However, "five-star" and "four-star" funds yielded "less negative" return than "one-star" and "two-star" funds and the SET index. Ranking the funds with a "Star Rating" is, therefore, another good option for the investor to use in selecting their funds.



"Nevertheless, it does not mean that all investors who buy **"five-star funds"** will become rich or gain profits. We however believe that a **Star Rating** will serves as a help and a starting point for the investors in selecting the high-return and low-risk funds in the long-term. It is better than looking for a short-term return only.

To apply this method, the investor may start from selecting the fund category that suits his/her needs and risk appetite. Then, he/she can select four or five "five-star" and "four-star" funds and study the details, such as investment policy, investment style and fees, or talk to the fund managers.

In addition to ranking the fund in each category by giving it a **"star rating"**, Morningstar holds a tradition of presenting awards to the best funds each year. **"Morningstar Fund Awards"** was held in more than 20 countries worldwide across Europe, Asia, Africa and America.

The criteria for award presentation consist of both **"Quantitative"** and **"Qualitative"** performance. The quantitative performance is divided into two parts: 1) **"Return"** represents about 80% of the total criteria. Each fund will gain the percentile rank in its category in a specific period. The company puts a 30% weight on a one-year return, 20% on a three-year return and 30% on a five-year return. 2) **"Risk"** represents 20% of the total criteria. Each fund will gain the percentile rank in its category. Based on the Morningstar Risk, the weight of the risk in the past three years is 40% and 60% in the past five years.

"Based on the abovementioned criteria, 48% of the total scores come from the most recent year, 18% from the second and third year, and 8% from the fourth and fifth year. We can see that the Morningstar award presentation not only gives the heaviest weight on the most recent year, but also focuses on long-term return."

The consideration of qualitative performance includes whether the fund possesses too high risk to maintain its good performance in a long term, or if there is any change in fund managers which may result in negative impact on the funds' return and performance. On top of that, the style of investment should be consistent and the fund should generate higher return than the group's mean value for at least three out of five calendar years to show that the fund continuously performs well in the past and at present.

The **"Star Rating"** of Morningstar is considered to be a **"tool"** that can help investors in selecting the funds at certain extent. He/she may start from putting aside a sum of money to invest in a fund with good rating. Then, the investor should **"compare"** its medium to long-term return with the funds he/she has already invested in. If the result is not good, the investor does not have to use the tool. There is nothing to lose. On the other hand, if the result is good, but the investor does not use the tool, he/she will miss a chance.

In conclusion, what the investor will get from the Star Rating would be information on funds that yield a high return and have low volatility in the long-term (at least three years). The Star Rating may not be the final answer for the investment, but it will be the **"help"** and **"good starting point"** that more or less brings the investor to success.