

TEPLX—A Fund Relic Or A New Opportunity?

**Portfolios heavy
with
under-
performing
stocks almost
never
outperform the
market.**

Ignat's Law

**The relative
performance chart of
the TEPLX is a good
example of Ignat's
Law at work but more
recent performance
suggests that maybe it
is changing.**

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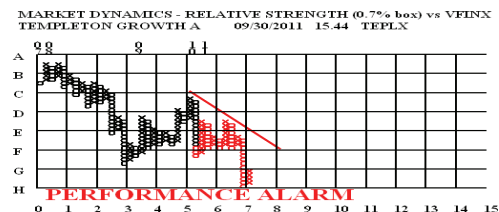
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The relative performance chart of the Franklin-Templeton Growth Fund (TEPLX) recently attracted my attention. This was the handiwork of the late Sir John Templeton, who was a world renowned investor. This is a major fund with assets of almost \$12 billion in market value. The chart shows that the relative performance of the fund relative to the S&P 500 recently recorded a low, lower than the low, established during the Crash of 2008. Why?

There us only one explanation for such poor performance. Too many stocks were held for too long that under-performed the market. The MSN page on the TEPLX shows a turnover ratio if 0% during 2010. If this turnover ratio is correct, it indicates that the prior portfolio manager was completely frozen in place during 2010. Not only did he hold bad stocks but it appears that he refused to move. This suggests that the prior portfolio manager had lost his way or lost his confidence or maybe both.

Looking into the background of the fund, a new portfolio manager was assigned in March of 2011. This fund is in the World Stock Category so it is free to seek equity investment opportunities anywhere in the world.. The turnover ratio so far in 2011 stands at 82% so the new portfolio manager is definitely taking the fund in a new direction.

I know from my experiences as an institutional portfolio manager in the early 1970's that turning



around a major fund during a topsy-turvy market is a very tough task I believe that a successful fund turnaround requires a strong investment discipline and conviction and more than a little good luck. It is too early to tell but the point and figure chart of relative performance has moved into a column of Xs and that suggests that maybe, just maybe, the new direction is starting to work.

The new portfolio manager is a CFA with over 20 years of experience with Templeton and was formerly the director of research for Templeton. We can't tell for sure whether the new direction will produce the desired performance but at least some action is being taken. Not only did the new portfolio manager face a down market this summer but he probably had to deal with significant withdrawals from the fund as well.

The mutual fund relative strength charting system has been under-development for the past four years and it is now being offered to Market Dynamics subscribers as an integral part of the of the Market Dynamics service. If you would like to receive the MDRS mutual fund service just send me an email with "add mutual fund service" in the subject line. No extra charge. W. Clay Allen CFA