



Midcap Funds Offer Good Returns and Safety

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INVESTMENT GURU RON BARON has a penchant for taking things over the top. Earlier this month, Baron, who runs a family of six mutual funds, assembled 4,000 of his loyal shareholders at the Metropolitan Opera House in New York City. The guests were treated to speeches by his portfolio managers, as well as corner office luminaries Millard Drexler, the head of J. Crew, and Joe Mansueto, the founder of Morningstar. Those appearances alone would have been enough to make the event a raving success, but then Baron unveiled his surprise guests: Bette Midler, Michael Bolton and Sheryl Crow.

While Baron certainly holds some newsworthy gatherings (in past events, he's booked Elton John and Cher), we're focusing on him for a different reason. This week, we went searching for the industry's best midcap stock funds. We started out with a universe of 1,287 offerings and instantly cut almost 1,100 because they charged load fees. We then narrowed that list further with our usual performance and expense criteria. In the end, we came up with a list of 16 funds, two of which boast Baron's name.

Midcap funds — those that invest in companies that typically have a market capitalization of between \$1 billion and \$10 billion — have proven to be a great investment, both over the short and long term. Fueled mostly by midcap-growth stocks, these offerings have returned 6.9% year to date, the best return of any broad-focused domestic equity fund group. Over the previous five years, they've posted average gains of 15.9% — four percentage points ahead of S&P 500 index funds. Our finalists have turned in even better performances, returning an average 20% during that time.

The managers in this space have a wide variety of stocks to pick through. Many midcaps were once small-capitalization companies that experienced healthy growth, or large-cap firms that have fallen from grace. In general, midcaps are seen as a safe harbor for many investors. They aren't as volatile as small caps and they offer decent growth prospects that large companies can't. They also tend to ride out turbulent markets better than their counterparts. We feel comfortable making midcaps 15% to 20% of your domestic equity holdings. "It's a sweet spot," says Alan Lancz, a wealth manager in Toledo, Ohio, and editor of the Lancz Letter.

Despite the stellar performance of these funds, you still need to keep an eye on what it is that you're buying. For example, if you use Morningstar to screen for funds, you'll find that many multicap funds are put into the midcap category. That means you won't get pure midcap exposure with one of these go-anywhere offerings.

Started in 1987, Baron's midcap-growth fund, **Baron Asset** (BARAX¹), has returned an average annual 18.2% since 2002, putting it in the top 15% of its category. That stellar performance is due in part to Baron's stock-picking strategy, which favors stocks that are expected to double in price over the next three to five years. Top holdings include **Vail Resorts** (MTN²), **Charles Schwab** (SCHW³) and **Choicepoint** (CPS⁴). And while almost three-quarters of this 74-stock portfolio are midcaps, investors will also find a 22% stake in large caps. That's a tribute to Baron's buy-and-hold philosophy (the fund's annual turnover is 22%). As his picks rise in value, they are inevitably re-branded as large caps.

The Criteria

The midcap funds on our list are open to new money, require a minimum investment of under \$5,000 and don't charge a load when new investors purchase shares. The funds also had three- and five-year performance track records that put them in the top 25% of their category.

Middle of the Road						
Company	Assets (\$ millions)	YTD Return (%)	3-Year Average Annual Return (%)	5-Year Average Annual Return (%)	Expense Ratio (%)	Minimum Initial Investment
American Century Heritage (TWHIX ⁵)	2477	34.7	27.1	19.8	1.00	2500
American Century Vista (TWCVX ⁶)	2920	30.9	18.1	19.1	1.00	2500
Aston Optimum Mid Cap (CHTTX ⁷)	823	14.1	13.5	18.5	1.16	2500
Baron Asset (BARAX ⁸)	4638	10.0	14.9	18.2	1.33	2000
Baron iOpportunity (BIOPX ⁹)	198	20.5	15.3	24.6	1.45	2000
Bridgeway Aggressive Investors II (BRAIX ¹⁰)	811	21.9	17.7	19.9	1.22	2000
Buffalo Mid Cap (BUFMX ¹¹)	512	12.5	12.4	17.2	1.02	2500
CGM Focus (CGMFX ¹²)	5229	58.7	33.1	32.5	1.02	2500
Columbia Mid Cap Value (NAMAX ¹³)	2268	6.1	14.1	19.1	0.87	2500
Fairholme (FAIRX ¹⁴)	6781	12.3	16.8	18.4	1.00	2500
Harbor Mid Cap Growth (HIMGX ¹⁵)	153	19.7	18.6	19.7	1.32	2500
Janus Enterprise (JAENX ¹⁶)	2234	19.4	16.7	19.5	1.00	2500
Loomis Sayles Mid Cap Growth (LAGRX ¹⁷)	34	26.8	18.2	19.1	1.25	2500
Neuberger Berman Manhattan (NMANX ¹⁸)	501	18.9	17.6	17.3	1.05	1000
TIAA-CREF Mid Cap Value (TCMVX ¹⁹)	202	6.7	14.9	20.9	0.63	2500
Wells Fargo Advantage Discovery (STDIX ²⁰)	310	19.3	15.0	17.8	1.38	2500
Source: Lipper						
Note: Data as of Nov. 15, 2007						