FUND STRATEGIES

Selected Large-Cap Core Funds

These choices garner five-star rankings from S&P Capital IQ.

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Editorial

Despite risks, fund managers and S&P Capital IQ see no bear-market triggers.

The eurozone economy narrowly escaped recession in the third quarter and U.S. jobless-claim figures released on November 14 suggest the labor market continues its slow, gradual improvement. Nonetheless, S&P Capital IQ says the challenges facing equities are not likely to trigger a major downturn.

Alec Young, global equity strategist for S&P Capital IQ, expects the pace of equity appreciation to slow over the next 12 months while the domestic and global economies continue to mend, "but we don't see major enduring equity downside in our base-case scenario." On November 8, S&P Capital IQ's Investment Policy Committee raised its 12-month target for the S&P 500 to 1,895 from 1,845, implying about a 6.5% increase from the November 13 close.

Looking ahead, Sam Stovall, S&P Capital IQ's chief equity strategist, sees no immediate catalysts for a downturn in U.S. equities. In fact, he thinks the media is obsessed with cautioning investors about an impending stock-market correction, which may never materialize.

As for next year, "sooner or later profit margins will have to come down," he says, adding "but based on projections for earnings ... we don't see a lot to worry about." S&P Capital IQ expects earnings per share (EPS) to climb for S&P 500 companies to about $121 in 2014, from a projected $109 in 2013.

So while a market correction of up to 20% may be due, according to historical patterns observed, a pattern "doesn't say whether it will be on time. As a result, investors will likely get to enjoy their holiday festivities before fretting over the post-New Year's fireworks," he says. Stovall categorizes declines of 5%-10% as pullbacks, 10%-20% as corrections and 20%+ as bear markets.

The speed at which the government quantitative easing program is unwound may be the key to how the stock market reacts, says Vassilis Dagioglu, a managing director at Mellon Capital. "Higher yields could cause an increase in the discount rates for stocks," he says. Dagioglu is also concerned rate increases would mop up liquidity, causing shareholders to become more conservative, while potentially causing a slowdown in the rate-sensitive sectors of the economy such as housing and consumer spending which may impact the large-cap company revenues, he says.

Ralph Bassett, who is deputy head of North American equities at Aberdeen Asset Management, is concerned about the long-term ramifications of U.S. spending decisions. "Ultimately we are trying to get on a sustainable path to manage budgets and address deficits," Bassett notes. But while it's good to get the deficit in line, he believes, for example, if the Food Stamp program were cut significantly, the action "would be a headwind to growth. It would impact dollar stores, food retailers and a host of other things.

"Taking billions of dollars out of the economy tends to have a multiplier effect on the population that doesn't have much discretionary income to begin with," he says. ■

SELECTED FIVE-STAR LARGE-CAP CORE FUNDS

FUND / TICKER	RANKING	CURRENT PRICE ($)	ASSETS ($ MLNS)	INCEPTION DATE	EXPENSE RATIO	MINIMUM INITIAL INVESTMENT	YTD % RETURN	3-YR % AVG TOTAL RETURN
Bridgeway Blue Chip 35 Index / BRLIX	5	10.63	507.4	7/31/1997	0.15	2,000	27.2	16.7
Clipper / CFIMX	5	89.39	1203.1	2/29/1984	0.75	2,500	28.5	15.7
Davenport Core / DAVPX	5	19.29	253.8	1/15/1998	0.95	5,000	26.9	16.1
Fidelity Mega Cap Stock / FGRTX	5	15.33	2394.4	12/28/1998	0.70	2,500	29.2	18.6
Invesco Disciplined Equity / AWEIX	5	14.46	470.3	12/1/2005	0.78	1,000	26.5	17.0
Schwab 1000 Index / SNXFX	5	49.37	5886.8	4/2/1991	0.29	100	27.7	16.3
T Rowe Price Capital Opportunity / PRCOX	5	21.22	567.9	11/30/1994	0.75	2,500	27.8	16.4

Source: S&P Capital IQ. S&P's Mutual Fund Rankings provide a quantitative and holistic assessment of the performance, risk profile, and relative costs of a given fund compared to other mutual funds in its category. Rankings range from 5 (best) to 1 (worst) and follow a normalized distribution curve.