

Gabelli Asset AAA GABAX

Morningstar's Take | 11-16-09 | by Greg Brown

This mutual fund possesses a number of admirable traits.

Gabelli Asset has stood the test of time.

This mid-blend fund has a management advantage over most of its peers. Mario Gabelli, who has been at the helm since the fund was launched in 1986, is the third-longest-serving skipper in the category and has more than four times as much experience as the typical manager in the category. This means that he's seen a much broader array of market conditions than most.

Gabelli's strategy also sets him apart from the competition. He looks for stocks that are trading at big discounts to his estimate of their intrinsic value and have catalysts to unlock future growth. Gabelli has spent more than 40 years specializing in media, telecom, and consumer goods sectors, and he considers that a core research capability of his firm (so it's common to see the fund overweight there). For example, the fund's consumer goods stake is more than double the category average, and his media stake is 10 percentage points higher than the category norm of 3%. But he tempers those sector biases by running an exceptionally well-diversified portfolio of nearly 500 names. Finally, Gabelli is a buy-and-hold investor. Over the past decade, the fund's turnover rate has averaged 15%, while the typical mid-blend fund has a 89% turnover rate.

This strategy has caused the fund to lag its peers at times, but Gabelli has delivered the goods with it over the long haul. The fund disappointed in 2003 as media stocks struggled, and it trails roughly two thirds of its rivals so far in 2009 partly due to its heavy stake in consumer goods stocks (which fared well last year but have posted lackluster gains in this year's rally). But the fund has posted good results in a variety of climates in the past, thanks to Gabelli's decision-making, so its 15-year annualized returns rank in the category's top quartile. And the fund has had relatively modest volatility along the way, due to his value bias and commitment to issue diversification.

This fund remains a solid choice.

Greg Brown is a mutual fund analyst with Morningstar.

Kudos

- Below-average volatility.
- Experienced manager.

Risks

- Above-average fees.
- Mario Gabelli may be stretched a bit thin in his many roles as manager, CEO, and media entrepreneur.

Strategy

Mario Gabelli first looks for firms trading at less than his estimates of the price that a private buyer would pay for them. He buys those with improving fundamentals and clear catalysts that can drive their share prices higher. His style has led him to favor media and communications firms for some time, but industrials and consumer staples are also featured in the portfolio.

Management

Mario Gabelli has managed this fund since its March 1986 inception. He has clearly demonstrated management acumen, but his total compensation package is excessive (\$70 million in 2007), and it's based mostly on assets under management at his firm rather than individual fund performance.

Role in Portfolio

Core. This fund gives a smooth ride and invests in companies of all sizes. It severely underweights growth areas such as technology and health care, but it should make a fine core holding for less-aggressive investors.

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| Year | Total Return (%) | +/-Category |
|------|------------------|-------------|
| YTD | 26.89 | -5.54 |
| 2009 | — | — |
| 2008 | -37.20 | 2.45 |
| 2007 | 11.84 | 5.90 |
| 2006 | 21.84 | 9.36 |

Data through 11-30-09

Important Disclosure Information

The past performance noted does not guarantee future results. Through September 30, 2009, -3.36%, 4.49%, 4.96% and 11.83% are the one year, the five year, the ten year and life of Fund (3/3/86) average annual returns for The Gabelli Asset Fund. The current expense ratio for The Gabelli Asset Fund Class AAA shares is 1.38%. Total returns and average annual returns are historical and reflect changes in share price, reinvested dividends and capital gains and are net of expenses. Due to market volatility, current performance may be lower or higher than the figures shown. Investment return and principal value will fluctuate so, upon redemption, shares may be worth more or less than their original cost. Stocks are subject to market, economic and business risks that cause their prices to fluctuate. Consequently, you can lose money by investing in the Fund. Performance pertains to Class AAA shares only. Other share classes may have different performance characteristics. Visit www.gabelli.com/funds for performance results as of the most recent month-end.

Mario J. Gabelli is the Chairman and Chief Investment Officer – Value Portfolios of GAMCO Investors, Inc. and Portfolio Manager of The Gabelli Asset Fund. Not FDIC Insured. May lose money.

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Investors should consider carefully the investment objectives, risks, charges, and expenses of the fund before investing. The prospectus contains more information about this and other matters. The prospectus should be read carefully before investing.

You can obtain a prospectus by calling Gabelli & Company, Inc. at 800-GABELLI (800-422-3554), or contacting your financial representative or by visiting www.gabelli.com. Distributed by Gabelli & Company, Inc., One Corporate Center, Rye, NY 10580.

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