

# THE JOURNAL REPORT

THE WALL STREET JOURNAL

Monday, April 6, 2009 R2

## WINNER'S CIRCLE

# Winning = Losing

*Despite March's rally, top-performing stock funds still saddle investors with negative returns*

By Daisy Maxey

The U.S. stock market staged a strong rally in March, and the average mutual fund holding those shares turned in a positive result for the month as fears of a financial-system collapse receded.

But small investors hardly feel joyful: Even with the 8.4% return for March, roughly in line with broad stock-market indexes, the average fund is still down 37.1% over the past 12 months, according to Lipper Inc.

Times remain so tough that the top funds are winners on a relative basis only, meaning they are losing less than their peers, according to our quarterly Winners' Circle contest, which screens for the best performers over the preceding 12 months among diversified U.S.-stock funds.

The No. 1 fund, is **Gabelli ABC Fund**, run by veteran investor Mario Gabelli, which posted a loss of 1.2% for one year through March 31. The contest

uses preliminary data from Morningstar Inc. for funds at least three years old and with more than \$50 million in assets. That universe currently includes 1,663 funds.

Mr. Gabelli describes the \$250 million Gabelli ABC portfolio as a "deal fund," one that seeks to profit from arbitrage around mergers and acquisitions by buying stocks that are targets of acquirers and that trade below the proposed purchase price.

In general, the strategy isn't correlated with movements of the broader market, he says, though he considers 2008 -- when his fund posted its first negative return since its 1993 inception, down 2.6% -- as the most difficult investing climate he can recall.

In second place is Intrepid Small Cap Fund, down 5.7% for the 12 months



Mario Gabelli

through March 31, and in third is Forester Value, down 8.9%. The Forester fund finished 2008 with the distinction of being the sole diversified U.S.-stock mutual fund to post a positive return for the year, even after restrictions on size and inception date were lifted to expand the field to about 8,200 funds. Forester Value eked out a 0.4% positive return for the year.

[Taken out of sequence, excerpt from original article]

### Stroke of Luck?

Similarly, Mr. Gabelli, chief executive of Gamco Investors Inc., says he sees some evidence that, even before the government's economic-stimulus package kicks in, the economy is finding a bottom, but he cautions that it faces a long healing process.

continued on reverse...

The past performance noted does not guarantee future results. As of March 31, 2009, according to Morningstar, The Gabelli ABC Fund ranked #1 out of 2,324 domestic equity funds for the 1-year period, #1 out of 2,324 funds for the 3-year period, #4 out of 2,032 funds for the 5-year period and #136 out of 1,331 funds for the 10-year period among funds at least 3 years old.

Through March 31, 2009, -1.20%, 4.54%, 5.25% and 6.88% are the one year, the five year, the ten year and life of Fund (5/14/93 inception date) average annual returns for the Gabelli ABC Fund Class AAA shares. The current expense ratio for The Gabelli ABC Fund Class AAA shares is 0.65%. 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. Visit [www.gabelli.com/funds](http://www.gabelli.com/funds) for performance results as of the most recent month-end.

Lipper and Morningstar are independent providers of investment research and mutual fund information. Morningstar based its ranking of U.S. equity funds on total return for the one-year period through March 31, 2009. Total return measures the increase in an investment in this fund as a percentage of that initial investment. Total return includes both income (in the form of dividends or interest payments) and capital gains or losses (the increase or decrease in the value of a security). Morningstar calculates total return by taking the change in a fund's NAV, assuming the reinvestment of all income and capital gains distributions (on the actual reinvestment date used by the fund) during the period, and then dividing by the initial NAV.

"Once companies have liquidity, you're going to see them try to grow," he says. They will debate internal growth vs. acquisition, and he believes many will discover it is cheaper to buy a business. "We think that will start as early as April -- a lot more deal activity," he says. "We're going to start seeing more deals, more spinoffs, more of a variety of things."

For now, he says of mergers-and-acquisitions activity, "it's like a daffodil or a crocus" starting to bloom.

Mr. Gabelli cites figures showing inventories are so low that factory production may have nowhere to go but up, even as demand stays sluggish, while he believes automobile sales have fallen so far they have hit bottom. Also, home-refinancing activity to take advantage of lower interest rates should provide consumers more spending money, he says.

During the first quarter, the fund's largest holding was biotechnology firm Genentech Inc. Swiss drug maker Roche Holding AG in March completed a tender offer to raise its stake in Genentech to 93% from 56%. Mr. Gabelli's fund had taken "a token position when the deal was first announced, and continued adding to it." The deal gave the fund "a pretty good kiss," he says.

Another winner for the fund has been specialty chemical company Rohm & Haas Co., which chemical giant Dow Chemical Co. acquired last week. Shares of Rohm & Haas soared 40% in early March as it became clear that the deal, struck in July 2008, would go through. "We got lucky," because some deals have fallen apart over the past year as the economy deteriorated, Mr. Gabelli says.

The fund holds shares of Metavante Technologies Inc., which Fidelity National Information Services Inc. agreed to acquire last week. Metavante shares rose on the news. "We started off the quarter on a bright note," Mr. Gabelli says.

### All over the Map

The first quarter offered investors plenty of mixed signals. Some leading bank stocks rose after the companies said they were profitable in the first two months of the year. Later, the government unveiled its investment program to help rid banks of their toxic assets. In addition, consumer spending increased over the fourth quarter, and existing-home sales rose in February.

However, initial jobless claims increased in the first quarter over the fourth quarter, and news that General Motors

Corp. might go into bankruptcy-court protection sent shares tumbling on March 30, though they finished the quarter with an up day.

The best-performing stock funds were all over the map: from small- to large-share specialists, some favoring "value" investments, some "growth," and some a mix. Value shares are those deemed cheap on the basis of metrics such as price-to-earnings per share. Growth shares are typically those of companies with earnings expanding faster than peers.

In general, growth-stock funds showed the best performance, according to data from Morningstar and Lipper Inc. Investors favored big companies with manageable debt levels, like Coca-Cola Co., according to Morningstar's analysis of the quarter. Some technology and Internet-related companies, including Google Inc., Apple Inc. and Qualcomm Inc., fared relatively well.

While they don't have the steady revenues and earnings of Coke, they have solid balance sheets, Morningstar said. Indeed, science-and-technology funds delivered one of the best performances of the quarter of any Lipper category, with the average fund up 2.6%

---

Mario J. Gabelli is the Chairman and Chief Investment Officer — Value Portfolios of GAMCO Investors, Inc. and Portfolio Manager of Gabelli ABC Fund. The Fund's investments are subject to market, economic, and business risks that causes their prices to fluctuate. As a non-diversified Fund, the Fund may have a larger portion of its assets in a single issuer than a more diversified fund. Because the Fund invests in announced mergers or acquisitions, the Fund is subject to the risk that the announced merger or acquisition may not be completed, may be negotiated at a less attractive price, or may not close on the expected date. The Fund may not achieve its objective and you may lose money by investing in the Fund. As of March 31, 2009, The Gabelli ABC Fund held the following as a percentage of net asset value: Metavante Technologies 0.05%, Rohm & Haas 0.08%, Google Inc. less than 0.01%, and 0% of General Motors Corp., Coca Cola Co., Apple Inc., Qualcomm Inc., Dow Chemical, Roche Holdings, and Genentech Inc.

Performance pertains to Class AAA shares only. Other share classes may have different performance characteristics. From April 1, 2002 through April 30, 2007, the Adviser voluntarily agreed to reduce its advisory fee by 0.50%. This was made permanent on May 1, 2007. Performance results would have been lower had the Adviser not reduced fees. Mario J. Gabelli is the Chairman and Portfolio Manager of The Gabelli ABC Fund. Individual securities mentioned are not representative of the entire portfolio. The views expressed in this article reflect those of the Portfolio Manager only through April 6, 2009. The Portfolio Manager's views are subject to change at any time based on market and other conditions. Not FDIC Insured. Not Bank Guaranteed. May Lose Value. Other funds mentioned may have different investment objectives, strategies, risks, expenses and charges. They are available by prospectus through other distributors.

***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](http://www.gabelli.com). Distributed by Gabelli & Company, Inc., One Corporate Center, Rye, NY 10580.

For more information, visit our website at: [www.gabelli.com](http://www.gabelli.com) or call: 800-GABELLI  
800-422-3554 • 914-921-5100 • Fax: 914-921-5118 • [info@gabelli.com](mailto:info@gabelli.com)  
Distributed by Gabelli & Company, Inc. One Corporate Center, Rye, New York 10580