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## From **THE TRADERS COLUMN** By *Michael Santoli*

### ••• *Ned Davis Pulls Back*

Ned Davis Research has won a daily place in thousands of fund managers' e-mail boxes with its long record of cogent market commentary, proprietary quantitative analysis and huge array of indicators.

Since March 2003, the firm has also been putting individuals' money where its models are, through a mutual fund under the Gabelli Asset Management umbrella called **Ned Davis Research Asset Allocation**.

The fund uses Ned Davis' system for comparing stocks, bonds and cash to allocate funds among those asset classes. For most of the fund's existence (having launched just after the monster 2003 rally began), the fund has had an overweight stock position and little cash. Since inception, the fund is up about 16%.

In recent weeks, the firm's models counseled a steep reduction in equity exposure,

indicating stocks had become a good deal less attractive.

Geoffrey Raymond, co-portfolio manager of the fund, says its stock allocation has gone from 84% or 85% to a recent 58% to 59%, just about at what the fund considers a neutral 60% commitment. That's the lowest equity allocation to date. The bond-versus-cash model, incidentally, continues to recommend maximum long bond duration, quite in contrast to anecdotal bond-market sentiment.

Raymond says the model had turned negative on stocks, but the managers have made the discretionary decision -- which he says is rare -- to keep a neutral position, on the idea that the market could strengthen soon if some looming uncertainties lift.

He views the market as occupying an "in-between period" where there are no "fat pitches." Within the equity portfolio, value stocks are now favored over growth.

Robin Carpenter, who runs Carpenter Analytical Services, flagged the reduction in the Ned Davis fund's stock exposure through statistical market-sensitivity

screening. He notes that the two prior times this year the fund sharply curtailed its stock holdings, in January and April, coincided with short-term market tops.

*For a prospectus and more information, visit our website at:*

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**Past performance is no guarantee of future results.** The Fund gained 7.11% for the one year period through June 30, 2004 and its annualized total return since its inception on March 31, 2003 was 14.74%. Total return reflects changes in share price and reinvestment of capital gains and is net of expenses. Performance for a short period of time does not purport to represent long term results. Due to market volatility, current performance may be lower or higher than the figures shown. Investment return and principle value will fluctuate so, upon redemption, shares may be worth more or less than their original cost. If expenses had not been limited, returns would have been lower. Performance is for Class AAA shares. Other share classes may have different performance characteristics. To obtain the most recent month-end performance information, please call 800-GABELLI or visit [www.gabelli.com](http://www.gabelli.com). Investors should consider the investment objective, risks, sales charges and expenses of the Fund before investing. The prospectus, which contains more complete information about this and other matters, should be read carefully before investing or sending money.

Ned Davis is CEO & Chief Investment Strategist of Ned Davis Research. Ned Davis Research Asset Allocation Fund is subject to various risks related to equities, interest rates and may not achieve its objectives. The Fund employs various investment techniques including the use of derivatives. The use of derivatives may be riskier than other types of investments because they may respond more to changes in economic conditions than other investments. It is possible to lose money by investing in the Fund. If expenses had not been limited, returns would have been lower. Multiple classes of shares are available and which have different performance characteristics. The views expressed in this article are only through 8/30/04. The views are subject to change at any time based on market and other conditions. 8/04