



## CFAA Event Note 3/20/2013

### “Looking Beyond the Stars: A Discussion on Mutual Fund Industry Trends”

On March 20<sup>th</sup>, 2013, CFAA hosted an event featuring Mr. David Falkof, a mutual fund industry expert from Morningstar on the topic of the developments and outlook of the mutual fund industry. Before the main event of the night, CFAA president Vivian Lin held a brief ceremony honoring Mr. Bruce Parisi as the winner of the CFAA Member of the Year Award for 2012.



Immediately afterward, Mr. Falkof opened his presentation on fund analysis by introducing the main business of Morningstar. As he described, Morning Star excels in helping financial advisors, institutions and retail investors in making informed decisions in mutual fund investments. Mr. Falkof first described the star rating system for mutual funds, a system Morningstar is often known for. However, this is simply the starting point as it primarily considers the past return performance of funds.





# Chinese Finance Association of America

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Moving beyond the Star system, the Analyst rating system is more forward looking by design. Mr. Falkof described the five pillars of the methodology including 1) personnel stability, 2) consistency of the investment process; 3) coherence of the investment idea generation and execution; 4) the business strategy of parent organizations, and 5) fee structure. Mr. Falkof also described the process Morningstar follows to update each fund's Analyst ratings.

The next segment of the presentation focused on industry trends. First, although alternative funds, commodity funds and ETFs enjoyed very high growth rates in the last few years, the overall Asset Under Management by the mutual fund industry is still dominated by equity and traditional bond funds. Between the two, bond funds grew faster, especially after the 2008 financial crisis. Although the exact reason for such a shift in asset allocation is still being debated, demographic factors such as increasing US retired population was considered as a major factor. Another trend Mr. Falkof pointed out was the growing popularity of ETFs. On the same token, passive funds also enjoyed steady growth in the last decade, taking market shares from actively managed funds.

Mr. Falkof concluded the presentation by summarizing the asset allocation recommendations from Morningstar and various money managers. The consensus view is that equity is more attractive than bonds and large cap stock will outperform small cap stocks. Emerging market equity and bonds will be advantageous comparing with developed country securities. Within the fixed income world, taking credit risk will be more rewarding than taking rate risk.

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**About CFAA**

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