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THE FIDELITY INVESTOR'S BIBLE

This newsletter's model portfolios have an impressive record.

BY NELLIE S. HUANG

Once a month, the editors of the *Fidelity Monitor & Insight* investing newsletter—executive editor Jack Bowers and editor John Bonnanzio—meet via Zoom to discuss the Fidelity mutual funds they follow (some 256), which they rate "Buy," "Sell" or "Hold." "We spend hours going over the rating of every single fund," says Bonnanzio.

The two men have been colleagues for 15 years but always on opposite ends of the country; Bowers is based in Zephyr Cove, Nev., and Bonnanzio is in Wellesley, Mass. Their newsletter is a throwback to 20th-century investing, but they use 21st-century tools to collaborate and create its content. On top of providing market and investing commentary, *Fidelity Monitor & Insight* offers advice on which Fidelity funds to buy, which to avoid, and how to put Fidelity funds together in model portfolios that are geared to risk levels from conservative to aggressive.

Newsletters of this type are on the wane. Their heyday was in the 1990s, when a raging bull market and the proliferation of 401(k)s and discount brokers made investing interesting and accessible. Do-it-yourself investors craved advice and were willing to pay hundreds of dollars a year to get it. At one point, more than half a dozen newsletters focused just on Fidelity funds, including *Fidelity Monitor* and *Fidelity Insight*, which were two separate publications back in the day.

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FIDELITY MONITOR & INSIGHT

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MESSAGE FROM JACK

Why Market Timing The Stock Market Doesn't Work

Wouldn't it be nice if you could hold stocks only when the market is going up, and be in cash the rest of the time?

Jack Bowers

Unfortunately, what looks easy in hindsight is almost impossible to do in real time. It takes a nervous Nellie to get out at a market top, and a battle-hardened opportunist to buy in at the bottom, so it's rare that the same person can fill both roles. Show me someone who has correctly timed the market over the last five major cycles, and I'll show you someone who always bets on the winning horse at the race track. These sorts of things simply don't happen because they face long odds comparable to winning the Powerball lottery.

The stock market rewards investors who are willing to bear risk. For those who aren't willing to bear risk (including those who take on risk and hedge against it), long-term performance isn't likely to be much better than money market returns.

But for market timers who alternate between cash and stocks, returns can be even worse, because emotional investors move in lockstep. The bottom of every major selloff is defined by those who are compelled to transfer their equity shares to stronger hands when the going gets tough. Then, later on, when the market has climbed 30% off its lows, some of the same market timers become determined to put their cash back to work, paying a premium to be back in stocks. Done repeatedly, their long-term performance will almost certainly be negative. They can end up with a small fortune, but only if they start with a large one.

If anyone asks you if the market is headed up or down, always say up. You'll be right about 67% of the time. Based on the monthly history of the S&P 500 since 1926, stocks have outperformed cash about two-thirds of the time. Increase the investment horizon to three years, and stocks beat cash about three-fourths of the time. Over 10 years it's more like five-sixths, and over 20 years the S&P 500 has always exceeded the return on a

Jack's Message cont'd on page 12

MARKET OUTLOOK

D.C.'s Policy Makers Make Fed's Inflation Fight Tougher

With the first quarter of 2024 in the rearview mirror, investors have certainly encountered plenty of surprises. For some, it's that the nearly uninterrupted rise of growth stocks has gone hand-in-hand with more defensive sectors (like pharma and cyclicals) gaining traction. This broadening is explainable by the benefits of "rising tides lifting all boats." But that's not the whole story.

John Bonnanzio

What's most impressive is that major equity indexes have extended their 2023 run into this year (see p. 5) and, in so doing, have soared into record territory. Remarkably, this has occurred even as the Fed Funds rate remains at a 23-year high. Granted, last year's bull market also resisted the gravitational pull of generationally high borrowing costs. But stocks appreciated amid the promise of modest GDP and corporate earnings growth and, more importantly,

FED STILL SEES LOWER RATES

Source: FOMC

Most quarters, the Fed releases its "dot plot," a graphic representation of its members' expectations for short-term interest rates. Although inflation (CPI) has been stubbornly stuck at around 3%, as of their March meeting, expectations for the fed funds rate was that it would fall 75 basis points over each of the next three calendar years. That's 2.25 percentage points in total. Its slightly more optimistic view is not surprising as inflation was higher (see p. 3) when members were last polled in December.

Market Outlook cont'd on page 3

Fidelity Monitor & Insight offers advice on whether to buy, sell or hold some 256 Fidelity funds.

(In 2009, *Monitor*, which launched in 1986, acquired Insight, which launched in 1985. They merged and became one newsletter in 2012.)

Investors subscribed in droves, and they closely followed the investment moves prescribed by the newsletter. "When we made a change to a fund in one of our model portfolios, a massive amount of money moved" at Fidelity, says Bowers.

In the mid to late 1990s, Bowers says, roughly $300 million in assets followed *Monitor's* Select model, so named because it was made up of Fidelity Select sector funds.

Then the World Wide Web arrived, and "it took the wind out of the sails of all newsletters," says Bowers.

Today, *Fidelity Monitor & Insight*, which has a $169 one-year subscription price, is one of the last of its kind. Some 14,500 subscribers—down from a combined 140,000 in the mid 1990s—receive a paper version of the newsletter. But it's not all old school. Readers get regular e-mails, too, on model portfolio moves and market news. And they can view updated fund ratings and model portfolios, plus access basic tools online, at **www.fmandi.com**.

And the advice? That's still solid. According to *The Hulbert Financial Digest*, an independent group that tracks the performance of investment advisory newsletters, *Fidelity Monitor & Insight's* model portfolios, on average, have delivered a 10.4% annualized return over the past 20 years through March. That's better than the S&P 500's 10.2% annualized return over the same period. Subscribers have to execute their trades on their own, but many are happy they do.

A SOLUTION FOR DO-IT-YOURSELFERS.

The newsletter's five model portfolios are its strength. The best-performing portfolio over the past 20 years, Select, has an impressive 11.0% annualized return through the end of April. Unique Opportunities—a more diversified and aggressive U.S. stock fund model—has a 10.5% annualized return.

The models range in risk from the most aggressive, Unique Opportunities, to the least, Income, which holds roughly 70% in bond funds and 30% in stock funds. Bonnanzio says he weighs in on fund comings and goings in the model portfolios with a "thumbs up or a thumbs down," but "Jack is the trigger man on the models."

Part of the key to their success, both Bowers and Bonnanzio say, is risk management: The models are geared to target a specific risk measure relative to the broad market. "These days you need to be more risky than the S&P 500 to get S&Plike returns," says Bonnanzio. The other part: They discourage market timing in favor of a buy-and-hold strategy. "Do-ityourself investors get nervous and sell at the bottom. Then they get comfortable and buy at the top," says Bowers. "We provide the structure for people to stay in the market at a certain risk level at all times, and that's how you build wealth."

Neither Bowers nor Bonnanzio has an MBA or CFA (Chartered Financial Analyst) designation, considered the gold standard of financial analysis. Bowers, 66, was an electrical engineer at Hewlett-Packard, writing Monitor on the side; he quit engineering in 1991 to run the newsletter full-time. Bonnanzio, 65, has a background rooted in writing about investing and business. "I worked for my local daily newspaper in high school," he says. His first job out of college, where he majored in economics and political science, was working at an investing publication for professional investors.

Monitor & Insight's ratings range from "Buy" to "OK to Buy," then "Hold," "OK to Sell" and, finally, "Sell." When the editors review the funds, Bonnanzio says, "we're looking for why a fund might not be behaving as it should." If a fund gets a new manager, they take notice. They also keep tabs on whether sector bets—a fund's heavy tilt to energy, say—have been a boost or drag on recent returns.

Fifty funds earn a "Buy" rating, including Fidelity Blue Chip Growth (a member of the Kiplinger 25, the list of our favorite actively managed no-load funds) and Fidelity Growth Discovery, two favorites of both Bowers and Bonnanzio. Another 73 funds rate an "OK to Buy." "Functionally, there's no difference between an OK to Buy and a Buy," says Bonnanzio. It comes down to conviction level. Last spring, for instance, Bowers and Bonnanzio upgraded Fidelity Japan Smaller Companies to "Buy," prompting a review of other funds with hefty stakes in Japanese stocks. Fidelity Pacific Basin and International Small Cap inched up to "OK to Buy" from "Hold."

THE NEWSLETTER'S BEST-PERFORMING PORTFOLIO OVER THE PAST 20 YEARS, SELECT, BOASTS AN 11.0% ANNUALIZED RETURN.

There are fewer "Sells." Only one fund earns an outright "Sell" (Fidelity Gold). Another 20 fetch an "OK to Sell." Some of those "avoids" represent a tactical view: A negative outlook on China prompted an "OK to Sell" on Fidelity China Region. Fidelity U.S. Low Volatility Equity, on the other hand, is "OK to Sell" because it's "a bad way to invest," says Bowers, who's not a fan of low-volatility strategies. The fund's three-year annualized return ranks at the bottom of its peer group.

WHAT'S NEXT?

How long the newsletter survives is anyone's guess. Bowers says he expects it to reach its 40th anniversary in 2026, and perhaps continue beyond.

What will definitely remain is the advisory business. Bowers plays a key role at two affiliate fiduciary firms, with about $650 million under management, where he practices what he preaches in the newsletters. "We built the advisory businesses from newsletter readers who were willing to become clients," he says.

If and when the newsletter shuts, more readers may be willing to become clients. The fee is higher—about $1,000 a year for a $500,000 account, Bowers says—but the firm handles all the trades. Bowers is betting that enough longtime subscribers will be okay with that, based on the satisfied reader e-mails the newsletter receives. "This is a get-rich-slowly approach. It's not what younger investors want to do today, but it's proven, and it works most of the time." K

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