

FundInvestorSM

Research and recommendations for the serious fund investor

The Fantastic 48

It's time once again for the Fantastic 48, a list of funds that pass some high hurdles.

I figure, with so many funds out there, why not be choosy? You want great managers, low costs, good stewardship, and managers who eat their own cooking. That's why I insist on funds that pass all eight tests, below.

My criteria:

- Must beat the fund's benchmark since the start date of the longest-tenured manager
- Must have expense ratios in the cheapest quintile of the category
- Must have a manager with at least five years' worth of experience
- Must have a Morningstar Analyst Rating of Bronze or better
- Must have a positive Parent rating
- Must have at least one manager with at least \$500,000 or more invested
- Must have overall Morningstar Risk that is not High
- Must not be limited to institutional investors

All told, just 48 funds passed those tests out of more than 7,000. That's three fewer than last year. You can see all 48 in the accompanying table. Vanguard led the way with 12 funds, followed by American with ten, and T. Rowe Price with four.

American Funds

Quite a few of American's domestic-stock funds have outlegged their benchmarks over a very long stretch. American employs multiple managers operating independently in its equity funds. They tend to be quite experienced, and the resulting portfolio can be rather diffuse. However, low costs and long tenure have led to excellent but not very exciting results. Six of its domestic-stock funds have beaten their benchmarks over the longest-tenured manager's tenure: **American Funds AMCAP** AMCPX, **American Funds American Mutual** AMRMX, **American Funds Fundamental Investors** ANCFX, **American Funds Growth Fund of America** AGTHX, **American Funds Investment Company of America** AIVSX, and **American Funds Washington Mutual** AWSHX.

Two allocation funds, **American Funds American Balanced** ABALX and **American Funds Capital Income Builder** CAIBX, have also delivered smooth rides by adding bonds to the mix. Finally, world-stock fund **American Funds New Perspective** ANWPX and emerging-market fund **American Funds New World** NEWFX complete the list.

This is only an excerpt of the full article. The other funds were omitted for reprint purposes. The full article is available at mfi.morningstar.com.




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The Fantastic 48

 Closed to new investors.

Fund Name	Category	Morningstar Analyst Rating	Overall Morningstar Risk	Expense Ratio (%)	Longest Mgr Tenure (Yr)	Start Month	Tenure Return Annualized	Index Return	Outperformance Versus Index
American Funds AMCAP AMCPX	Large Growth	Gold	Below Average	0.72	17.9	06/1996	9.81	7.91	1.90
American Funds American Balanced ABALX	Moderate Allocation	Silver	Average	0.61	17.3	02/1997	8.23	7.13	1.10
American Funds American Mutual AMRMX	Large Value	Gold	Low	0.61	8.3	02/2006	7.26	7.03	0.23
American Funds Capital Inc Bldr CAIBX	World Allocation	Silver	Average	0.61	22.3	01/1992	9.31	9.17	0.14
American Funds Fundamental Invs ANCFX	Large Blend	Gold	Above Average	0.63	21.1	04/1993	10.56	9.13	1.43
American Funds Growth Fund of Amer AGTHX	Large Growth	Bronze	Below Average	0.70	25.4	12/1988	11.90	10.28	1.62
American Funds Invt Co of Amer AIVSX	Large Blend	Silver	Below Average	0.61	22.1	04/1992	9.74	9.40	0.34
American Funds New World NEWFX	Div Emrg Mkts	Gold	Low	1.06	14.8	07/1999	9.03	4.10	4.93
American Funds New Perspective ANWPX	World Stock	Gold	Below Average	0.79	21.4	01/1993	10.91	7.10	3.81
American Funds Washington Mutual AWSHX	Large Value	Gold	Low	0.60	16.3	01/1998	6.82	6.05	0.77
Berwyn Income BERIX	Conservative Alloc	Silver	Below Average	0.63	8.3	01/2006	8.55	5.03	3.52
Dodge & Cox Global Stock DODWX	World Stock	Gold	Above Average	0.65	5.9	06/2008	5.63	3.81	1.82
Dodge & Cox Income DODIX	Interm-Term Bond	Gold	Average	0.43	25.3	02/1989	7.26	6.80	0.46
Dodge & Cox International Stock DODFX	Foreign Large Blend	Gold	Above Average	0.64	12.9	06/2001	9.31	5.63	3.68
Dodge & Cox Stock DODGX	Large Value	Gold	Above Average	0.52	37.3	02/1977	13.22	11.40	1.82
Fidelity Capital Appreciation FDCAX	Large Growth	Bronze	Above Average	0.77	8.4	11/2005	8.60	7.63	0.97
Fidelity Contrafund FCNTX	Large Growth	Silver	Low	0.66	23.6	10/1990	13.61	10.30	3.31
Fidelity Total Bond FTBFX	Interm-Term Bond	Gold	Above Average	0.45	9.3	01/2005	5.18	4.65	0.53
FPA Capital FPPTX	Mid-Cap Value	Silver	Above Average	0.86	6.4	12/2007	10.01	8.94	1.07
Franklin Income FKINX	Conservative Alloc	Bronze	Above Average	0.62	11.9	06/2002	8.46	7.01	1.45
Harbor Capital Appreciation HACAX	Large Growth	Gold	Average	0.65	23.9	06/1990	10.52	8.83	1.69
Harbor International HAINX	Foreign Large Blend	Gold	Above Average	0.74	5.1	03/2009	19.61	17.14	2.47
LKCM Equity LKEQX	Large Growth	Silver	Below Average	0.80	18.3	01/1996	8.61	8.27	0.34
LKCM Small Cap Equity LKSCX	Small Growth	Silver	Average	0.95	19.7	08/1994	11.76	9.78	1.98
Mairs & Power Balanced MAPOX	Moderate Allocation	Silver	Average	0.72	21.8	08/1992	9.76	9.26	0.50
Mairs & Power Growth MPGFY	Large Blend	Silver	Average	0.67	14.3	01/2000	9.95	3.66	6.29
MFS Massachusetts Investors Tr MITTX	Large Growth	Bronze	Below Average	0.70	9.8	08/2004	8.81	7.87	0.94
Mutual Quest MQIFX	World Stock	Silver	Low	0.77	10.3	01/2004	8.87	7.41	1.46
PRIMECAP Odyssey Aggressive Growth POAGX	Mid-Cap Growth	Gold	Above Average	0.64	9.4	12/2004	13.39	7.36	6.03
PRIMECAP Odyssey Growth POGRX	Large Growth	Gold	Above Average	0.65	9.4	12/2004	10.38	7.36	3.02
PRIMECAP Odyssey Stock POSKX	Large Blend	Gold	Below Average	0.63	9.4	12/2004	9.41	7.36	2.05
Selected American Shares SLADX	Large Blend	Bronze	Above Average	0.61	19.3	01/1995	10.92	9.62	1.30
T. Rowe Price Blue Chip Growth TRBCX	Large Growth	Silver	Above Average	0.74	20.8	07/1993	10.24	9.22	1.02
T. Rowe Price International Stock Fd PRITX	Foreign Lg Growth	Silver	Above Average	0.85	6.5	11/2007	0.42	-0.94	1.36
T. Rowe Price Mid-Cap Growth RPMGX	Mid-Cap Growth	Gold	Average	0.78	21.8	07/1992	14.05	12.68	1.37
T. Rowe Price Small-Cap Stock OTCFX	Small Growth	Silver	Below Average	0.91	21.6	10/1992	12.62	10.24	2.38
Vanguard Capital Opportunity VHCOX	Large Growth	Gold	Above Average	0.48	16.2	03/1998	13.53	7.38	6.15
Vanguard Dividend Growth VDIGX	Large Blend	Gold	Low	0.31	8.2	03/2006	9.04	7.32	1.72
Vanguard Energy VGENX	Equity Energy	Gold	Low	0.38	11.3	01/2003	14.85	12.10	2.75
Vanguard Equity-Income VEIPX	Large Value	Silver	Below Average	0.30	10.3	01/2004	8.59	7.71	0.88
Vanguard Health Care VGHCX	Health	Gold	Low	0.35	5.8	06/2008	14.61	11.64	2.97
Vanguard PRIMECAP Core VPCCX	Large Growth	Gold	Below Average	0.50	9.3	01/2005	9.77	7.49	2.28
Vanguard PRIMECAP VPMCX	Large Growth	Gold	Below Average	0.45	28.9	01/1985	13.31	10.82	2.49
Vanguard Selected Value VASVX	Mid-Cap Value	Gold	Below Average	0.43	15.0	04/1999	11.24	10.35	0.89
Vanguard Wellesley Income VWINX	Conservative Alloc	Gold	Below Average	0.25	6.3	01/2008	7.43	5.44	1.99
Vanguard Wellington VWELX	Moderate Allocation	Gold	Below Average	0.26	13.3	01/2001	7.52	4.70	2.82
Vanguard Windsor II Admiral VWNAX	Large Value	Silver	Average	0.28	28.8	07/1985	11.13	11.11	0.02
Vanguard Windsor VWNDX	Large Value	Bronze	Above Average	0.37	5.8	07/2008	10.62	8.83	1.79

Annualized returns through 03/31/2014

The sections for the other funds were omitted for reprint purposes. The full article is available at mfi.morningstar.com.

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Morningstar Analyst Rating™ for Funds: Unlike the backward-looking Morningstar Rating™, often referred to as the “Star Rating,” the Morningstar Analyst Rating for Funds is the summary expression of Morningstar’s forward-looking analysis of a fund. The Rating is a subjective evaluation, performed by Morningstar mutual fund analysts, based on five key pillars: (1) Process, (2) Performance, (3) People, (4) Parent and (5) Price. Analysts use this five-pillar evaluation to identify funds they believe are more likely to outperform, on a risk-adjusted basis, their peer groups and/or relevant benchmarks over the long term. Analysts consider both quantitative and qualitative factors in their research, and the weighting of each pillar may vary. Ratings, which are reevaluated at least every 14 months, ultimately reflect analysts’ overall assessment and are overseen by Morningstar’s Analyst Rating Committee. Ratings are assigned globally on a five-tier scale, running from Gold (the highest rating) to Negative (the lowest rating). Funds with a Gold rating are best-of-breed funds that distinguish themselves across the five pillars and have garnered analysts’ highest level of conviction. That is, a Gold-rated fund should have: (1) a seasoned, talented and successful manager or management team; (2) a sound, thoughtful process that has been executed skillfully and consistently; (3) a portfolio that is in harmony with the stated process and capable of delivering a reward that compensates investors for the risks it takes; (4) reasonable expenses; and (5) a strong parent organization that is focused on responsible stewardship of investor assets. Funds with a Silver rating are those with notable advantages across several, but perhaps not all, of the five pillars – strengths that give analysts a high level of conviction. Funds with a Bronze rating are those with advantages that outweigh the disadvantages across the five pillars and with sufficient level of analyst conviction to warrant a positive rating. Funds with a Neutral rating are those that are not likely to deliver standout returns but also are not likely to significantly underperform, according to analysts. Funds with a Negative rating are those that have at least one flaw likely to significantly hamper future performance and that are considered by analysts as inferior offerings to their peers. Funds that receive a positive rating of Gold, Silver or Bronze are thought of highly by analysts, who expect these funds to outperform over a full market cycle of at least five years. The Morningstar Analyst Ratings in the article are based on the most recent ratings published by Morningstar as of May 2014. The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar’s current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee, nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties, which may cause Morningstar’s expectations not to occur or to differ significantly from what was expected. For more detailed information about Morningstar’s Analyst Rating, including its methodology, go to <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>.

Morningstar Fund Spy tool: The Web-based tool, created by Morningstar, evaluates funds based on a set of criteria established by Russel Kinnel, director of fund research and editor. As listed on p. 1 of the article, the criteria applied are as follows: (1) A fund must have outperformed its prospectus benchmark over the tenure of the longest tenured manager. A minimum of five years is required. The test was run using returns through March 31, 2014; (2) expenses must be in the cheapest quintile of the category; (3) Parent ratings must be positive; (4) manager investment in the fund must be more than \$500,000; and (5) a fund must be a “medalist” – i.e., it must be rated Bronze, Silver or Gold - in order to be considered. Using these five criteria, the tool filtered 48 out of more than 7,000 funds, excluding true institutional funds, for all share classes in the Morningstar database, as of March 2014; 10 of the 48 funds were American Funds.

Morningstar Manager Return: A fund’s annualized return from the start date (the first day of the month shown) of the longest tenured manager.

Morningstar Parent Rating: An assessment of the parent organization. Key (operational) areas of evaluating a parent organization include: recruitment and retention of talent, organizational structure, capacity management, organizational and business strategy, alignment of interests with fund investors and regulatory compliance. For fund firms receiving Stewardship Grades, the Stewardship Grade will determine the Parent rating for all funds in the family. Funds from firms earning A and B Stewardship Grades will have Parent ratings of Positive; those earning C Stewardship Grades will have a Neutral Parent rating; and funds from firms earning D and F Stewardship Grades will have Negative Parent ratings. For funds not under Stewardship Grade coverage, their Parent ratings of Positive, Neutral or Negative will be based on an analysis of the fund firm that is consistent with the Stewardship Grade methodology.

Morningstar Risk: An assessment of the variations in a fund’s monthly returns, with an emphasis on downward variation. It is calculated as the difference between Morningstar Return (adjusted for loads and excess over the risk-free rate) and Morningstar Risk-Adjusted Return (adjusted for loads, excess over the risk-free rate and risk). Morningstar Risk is similar to (and correlated with) standard deviation; the key difference is that standard deviation gives the same weight to upside and downside variation. Morningstar Risk is measured for up to three periods (three, five and 10 years). For each period, all funds in a category are ranked by Morningstar Risk. The top 10% are given a risk score of 5, or “High”; the next 22.5% are scored 4, or “Above Average”; the next 35% are scored 3, or “Average”; the next 22.5% are scored 2, or “Below Average”; the bottom 10% are scored 1, or “Low.”

Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results are for Class A shares and reflect deduction of the 5.75% maximum sales charge. For current information and month-end results, visit americanfunds.com.

Results as of June 30, 2014

Fund	Inception date	Average annual total returns				Expense ratio
		1 year	5 years	10 years	Lifetime	
Growth funds						
AMCAP Fund®	5/1/67	23.27%	18.08%	7.78%	11.58%	0.70%
The Growth Fund of America®	12/1/73	19.29	15.59	7.81	13.65	0.70
New Perspective Fund®	3/13/73	14.50	14.21	8.60	12.41	0.79
New World Fund®	6/17/99	11.13	10.23	10.80	8.77	1.06
Growth-and-income funds						
American Mutual Fund®	2/21/50	14.05	15.41	7.23	11.69	0.61
Fundamental Investors®	8/1/78	16.01	15.88	8.71	12.50	0.63
The Investment Company of America®	1/1/34	20.13	15.41	7.14	12.20	0.61
Washington Mutual Investors Fund SM	7/31/52	15.42	17.01	6.91	11.91	0.60
Equity-income funds						
Capital Income Builder®	7/30/87	10.27	11.03	7.08	9.69	0.61
Balanced fund						
American Balanced Fund®	7/26/75	10.22	13.43	6.53	10.81	0.61

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Expense ratios are as of each fund's prospectus available at the time of publication. When applicable, investment results reflect fee waivers and/or expense reimbursements, without which results would have been lower. Please see americanfunds.com for more information.

Investing outside the United States involves risks such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries. The return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

If used after September 30, 2014, this article must be accompanied by a current American Funds quarterly statistical update.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.