

Sound Shore SSHFX

Morningstar's Take | 03-20-09 | by Gregg Wolper

Sound Shore's outperformance during market downturns is just one of its attractions.

This venerable value fund, which trounced the S&P 500 during the 2000-02 bear market, lagged that index by a small amount in the final quarter of 2007, when the current crash began. But it has soundly beaten the benchmark since, and has also topped the bulk of its rivals in the large-value category during this crisis. The reasons are varied. The managers generally steered clear of the most notorious minefields in the financials arena, and sold the couple of problem children they did own well before they collapsed. Meanwhile, they headed for some more-defensive names such as Coca-Cola KO and Novartis NVS, and benefited from the takeover of Barr Pharmaceuticals, a large holding. Even so, the fund did suffer deep losses, dropping 35.6% in 2008 alone.

There's more to this fund than bear-market performance. In an industry where management turnover is common, two of this fund's managers have been running it for all of its 23 years; the third joined the firm in 1995. The strategy they've used all those years offers comfort. They buy companies with an established position in their field, solid fundamentals, and the potential to gain market share. They want bargain prices but shy away from risky turnaround situations. The managers buy for the long term and say the fund's unusually high 111% turnover rate in 2008 owed to their efforts to become more cautious. While having a long-term view, they do keep current events in mind. For example, they sold General Electric GE after the Lehman Brothers collapse, concerned that investors would sour on GE's finance exposure.

The managers' advisory firm concentrates entirely on running this fund and private accounts with the exact same style. It offers no other funds or investment approaches and has no marketing budget. Although shareholders may wish the fund had held up even better in this crash, it's likely they'll be happy with it over the long run.

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Morningstar Rating



Analyst Pick

Kudos

- Outstanding long-term performance.
- Managers have extremely long tenures.
- Advisor focuses entirely on investing rather than marketing or creating new funds.
- Managers invest substantial amounts of personal money in fund.

Risks

- Management's willingness to go against the grain can lead it to lag rivals at times.
- Rather compact portfolio means individual stocks get significant allocations, so the fund will be hurt if a few stumble badly.

Strategy

Management seeks beaten-down stocks with solid fundamentals. It screens a universe of 1,250 U.S. equities to identify stocks trading at large discounts to their historic price multiples. Once it has narrowed the list, the team scrutinizes a firm's competitive position by speaking with company management, competitors, and customers. The team then prepares detailed financial and valuation models. The result is a portfolio of 40 or so mid- and large-cap companies.

Management

Managers Harry Burn and Gibbs Kane founded their firm in 1978 and have led this fund since its inception in May 1985. John DeGulis, an analyst here since 1995, was named a comanager of the fund in 2003. They work with a small group of in-house analysts. The firm's profit-sharing plan is invested in the fund.

Inside Scoop

This fund doesn't do anything revolutionary, but it has usually been successful. It invests in undervalued stocks with good cash-flow characteristics. Its managers have long tenures and are quite willing to go against the grain.

Role in Portfolio

Core

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Year	Total Return (%)	+/-Category
YTD	-14.15	5.43
2008	-35.60	1.49
2007	2.58	1.16
2006	16.56	-1.59
2005	6.80	0.85

Data through 02-28-09