

Sound Shore SSHFX

Morningstar's Take | 08-17-09 | by Gregg Wolper

Sound Shore can get you where you want to go.

This offering has the traits that one looks for in a long-term core holding. Two of its managers have been running the fund for more than 20 years (a third manager, added in 2003, has been with the firm more than a decade). While the fund's annual turnover rate isn't eye-catchingly low, it's usually below the large-value category average (except for unusually volatile 2008), and it's owned a number of companies for many years. The sector and stock weightings vary substantially from the S&P 500 Index. And the cost is reasonable. On the performance side, the fund is in the top quartile over the past three-, five-, and 10-year periods. It held up better than the S&P 500 and the category average during the 2007-09 bear market (though it did suffer a deep loss).

It's important to note that the fund's sector weightings don't arise from the managers' macro views. For example, the fund has a higher stake in the financials sector than either the index or its average rival, but that results purely from their favorable opinions of a few companies (none of them big U.S. banks). For example, comanagers Gibbs Kane and John DeGulis say they like Chubb CB because they expect insurance prices to rise and they like its strong balance sheet and the fact that the number of strong competitors has declined. Meanwhile, they like Visa V for its unrivaled network and its own solid balance sheet, plus the fact that it's not a lender, just a processor.

In other areas, they're keeping Pfizer PFE as a top pick. They're not worried about either health-care reform or patent expirations, saying that the company has been dealing with the specter of the former for years and the latter is already priced into its low valuation. They also own Novartis NVS.

All told, neither the portfolio nor the performance has offered much in the way of surprises lately. That provides reassurance that the strategy that has served this fund well for so many years remains in place.

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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

Sound Shore SSHFX

Year	Total Return (%)	+/-Category
YTD	17.60	3.14
2008	—	—
2007	-35.60	1.49
2006	2.58	1.16
2005	16.56	-1.59

Data through 08-31-09