

# Domestic Equity Funds -- Year-End 2003 Review

## *Large Caps -- Champs in 2004?*

Jan. 5, 2004 -- As the bull market moves into 2004, will large-cap stocks lead? Rosanne Pane, Standard & Poor's mutual fund strategist, expects them to in 2004 since large-cap stocks tend to do better in the second year of a bull market, and when the dollar is declining.

"At some point, large-caps will turn around," said John Montgomery, manager of [Bridgeway Ultra Small Company Fund](#) (BRUSX). Because of this year's sizable gains, he feels his small-cap fund "got the equivalent of two decades of outperformance this year." As a result, Montgomery has scaled back his personal exposure to small-cap stocks to 42% of total assets from 68%.

"It gets harder in 2004," said Peter Bourgeau, assistant manager of [Smith Barney Large Cap Growth Fund/A](#) (SBLGX). After this year's rally, Bourgeau believes few broad areas of the market can absorb sizable inflows. As a result, he expects the energy, consumer, and pharmaceutical sector to outperform. He also expects dividend-paying companies will do very well. "The dividend story is by no means played out," Bourgeau said. Last year, Smith Barney Large Cap Growth rose 46.7%

Ron Muhlenkamp, manager of [Muhlenkamp Fund](#) (MUHLX), feels "the catch-up bounce is over," although he expects that stocks will still outperform bonds in 2004. Due to widespread overcapacity in the economy, Muhlenkamp says investors will need to focus on sector leaders based on revenues. Last year, Muhlenkamp Fund was the third best-performing large-cap value offering, gaining 48.1%.

This year's market gains won't be as strong as last year's market, agrees Nick Galluccio, manager of [TCW Galileo Small Cap Value Fund/I](#) (TGSVX). "The easy gains have been made," he said. In general, the first 12 months of a recovery are the most robust, according to Galluccio. Last year, TCW Galileo Small Cap Value soared 63.8%.

"Next year, stock pickers will do better than the broad market," forecasts Alexander Motola, manager of [Thornburg Core Growth/A](#) (THCGX). Despite these challenges, Motola feels stock prices aren't high given low interest rates. Motola also expects that corporate cost cutting will continue to fuel higher earnings. A large-cap blend offering, Thornburg Core Growth rose 56.5% last year.

### ***2003: A Good Year***

Last year -- the first year of a bull market -- saw more aggressive, small-cap funds do better than larger cap funds, noted Standard & Poor's Pane. Domestic equity funds gained across the board, with a slight tilt toward growth in mid- and small-cap funds, Pane said.

Overall, U.S. stock fund enjoyed stellar gains in 2003, with the average domestic equity fund rising 32.91%. The gains were broad based across the domestic equity fund style categories, ranging from a 27.51% rise for large-cap blend funds to 44.29% for small-cap growth funds. The surging economy, accompanied by strong corporate profits, was a key factor behind these gains.

Although growth outpaced value in the mid- and small-cap fund categories, the value segments trailed the growth equity segments by modest amounts. While growth stocks generally outperform in the early stages of a bull market, the disparity between growth and value may be more muted currently as a result of sharp declines in the bear market. Last year, "a lot of companies that were

growth stocks became value stocks trading at below book value," said Boniface Zaino, manager of [Royce Fund Opportunity/Inv](#) (RYPNX). Zaino's fund, a small-cap blend offering, soared 64.7% last year.

Small-cap stocks tend to outperform when the economy emerges from a recession, said Jim Oberweis, manager of [Oberweis Micro-Cap Portfolio](#) (OBMCX). Oberweis said this year's strong gains for growth as well as value stocks was "unusual," but a "clear" sign of the broad market resurgence. Oberweis Micro-Cap was the second best-performing small-cap growth offering last year, rising 108.9%.

Small-cap stocks also outpaced the broad market in 2003 since they had been hit hard in the recent bear market, said Edward Hemmelgarn, manager of [Shaker Fund/A](#) (SHKAX). A mid-cap growth offering, Shaker Fund surged 57.2% last year.

**-- Bill Gerdes**

<b>Fund Investment Style</b>	<b>Average Returns 2003 (%)</b>
Large-Cap Growth	+28.22%
Large-Cap Value	+28.70%
Large-Cap Blend	+27.51%
Mid-Cap Growth	+35.83%
Mid-Cap Value	+34.75%
Mid-Cap Blend	+36.38%
Small-Cap Growth	+44.29%
Small-Cap Value	+41.97%
Small-Cap Blend	+43.23%
Domestic Equity Funds*	+32.91%
S&P 500	+28.47%

<b>Domestic Equity Funds* -- 2003 Returns</b>				
	<b>Best Performers</b>	<b>Returns (%)</b>	<b>Worst Performers</b>	<b>Returns (%)</b>

Large-Cap Growth	<a href="#">Reynolds Fund (REYFX)</a>	+121.9%	<a href="#">Regions Morgan Keegan Sel Capital Growth/A (MKCGX)</a>	+3.9%
Large-Cap Value	<a href="#">Hillman Aggressive Equity Fund (HCMAX)</a>	+55.1%	<a href="#">Copley Fund (COPLX)</a>	+14.3%
Large-Cap Blend	HW All Cap Value/A (HWAAX)	+69.6%	<a href="#">Howard Capital Appreciation Fund (HEFGX)</a>	+4.0%
Mid-Cap Growth	<a href="#">Legg Mason Inv Tr:Opportunity Tr/Prim (LMOPX)</a>	+67.4%	<a href="#">Ameritor Investment Fund (AIVTX)</a>	-10.5%
Mid-Cap Value	<a href="#">RS Investment Trust: Contrarian Value Fund (RSCOX)</a>	+66.0%	<a href="#">Wisdom Fund/B (WSDBX)</a>	+17.0%
Mid-Cap Blend	<a href="#">Fidelity Leveraged Company Stock (FLVCX)</a>	+96.3%	<a href="#">Old Westbury Capital Opportunity Fund (OWCOX)</a>	+16.1%
Small-Cap Growth	<a href="#">Apex Mid Cap Growth Fund (BMCGX)</a>	+165.3%	<a href="#">Frontier Funds: Equity Fund Portfolio (FEFPX)</a>	-44.2%
Small-Cap Value	<a href="#">Dreyfus Growth &amp; Value Fds: Small Co Value Fd (DSCVX)</a>	+86.6%	<a href="#">Scudder Small Cap/Invest (BTSCX)</a>	+22.1%
Small-Cap Blend	<a href="#">Bridgeway Fund:Ultra Small Company Fund (BRUSX)</a>	+88.2%	Potomac Warwick/Inv (PWARX)	-6.4%

<b>Fund Investment Style</b>	<b>Average Returns Fourth Quarter 2003 (%)</b>
Large-Cap Growth	+10.16%
Large-Cap Value	+13.02%
Large-Cap Blend	+11.53%
Mid-Cap Growth	+11.31%
Mid-Cap Value	+13.97%
Mid-Cap Blend	+12.79%
Small-Cap Growth	+12.52%
Small-Cap Value	+15.31%
Small-Cap Blend	+14.26%
Domestic Equity Funds*	+12.17%
S&P 500	+11.99%

**Domestic Equity Funds\* -- Fourth Quarter 2003 Returns**

	<b>Best Performers</b>	<b>Returns (%)</b>	<b>Worst Performers</b>	<b>Returns (%)</b>
Large-Cap Growth	<a href="#">Reynolds Fund</a> (REYFX)	+18.0%	<a href="#">Regions Morgan Keegan Sel Capital Growth/A</a> (MKCGX)	-14.3%
Large-Cap Value	<a href="#">Excelsior Value and Restructuring Fund</a> (UMBIX)	+19.7%	<a href="#">Parnassus Fund</a> (PARNX)	+1.5%
Large-Cap Blend	<a href="#">ProFunds:UltraDow 30/Inv</a> (UDPIX)	+26.6%	<a href="#">JPMorgan Value Opportunities Fund/A</a> (JVOAX)	-7.6%
Mid-Cap Growth	<a href="#">Pin Oak Aggressive Stock Fund</a> (POGSX)	+19.0%	<a href="#">Van Wagoner Mid-Cap Growth Fund</a> (VWMDX)	-5.5%
Mid-Cap Value	<a href="#">CGM Capital Development Fund</a> (LOMCX)	+26.8%	<a href="#">Federated Market Opportunity Fund/A</a> (FMAAX)	+6.8%
Mid-Cap Blend	<a href="#">Fidelity Leveraged Company Stock</a> (FLVCX)	+22.4%	<a href="#">Eagle Growth Shares</a> (EGRWX)	+2.5%
Small-Cap Growth	<a href="#">ProFunds:Ultra Small Cap/Inv</a> (UAPIX)	+29.0%	<a href="#">Van Wagoner Post-Venture Fund</a> (VWPVX)	-8.4%
Small-Cap Value	<a href="#">Texas Capital Value Fds:Value &amp; Growth Port</a> (TCVGX)	+25.5%	<a href="#">Corbin Small Cap Value Fund</a> (CORBX)	-1.2%
Small-Cap Blend	ING Small Cap Value/I	+22.3%	Potomac Warwick/Inv (PRARX)	-1.5%

\*Excluding sector and balanced funds.

Source: Standard & Poor's. Total returns include reinvested dividends. Data as of 12/31/03.