Santa Cruz Sentinel.com

Harry Domash, Online Investing: Healthcare mutual funds heat up

-

Posted: 06/19/2011 01:30:35 AM PDT

Even though the market has been weak lately, not all investors are singing the blues.

According to Morningstar, mutual funds focusing on healthcare stocks are up 12 percent, on average, so far this year. By comparison, the overall market, at least as measured by the S&P 500 is up 2 percent.

In terms of funds available to individual investors [more on that later], Fidelity Select Medical Delivery [FSHCX], up 16 percent year-to-date, was the category's best performer. The fund, which holds mostly healthcare providers and insurers, as opposed to pharmaceutical manufacturers and medical device makers, is no Johnny-come-lately. It has outperformed the overall market over the past year [16 percent versus 2 percent], three years [12 percent, on average, annually, versus 0 percent], five years [7 percent versus 2 percent], 10 years [11 percent versus 2 percent] and 15 years [9 percent versus 6 percent].

Following close behind Fidelity Select Medical Delivery in terms of year-to-date returns are T. Rowe Price Health Sciences [PRHSX], which does hold mostly pharmaceutical makers, and Fidelity Select Biotechnology [FBIOX], which true to its name, holds biotechs. Both are up 14 percent year-to-date. Longer term, both have typically performed as good or better than Fidelity Select Medical Delivery. For instance, over the past 15 years, T. Rowe Price Health Sciences and Fidelity Select Biotechnology have chalked up 15-year average annual returns of 11 percent and 8 percent, respectively.

Rice Hall James Small-Cap Portfolio [RHJMX], up 11 percent year-to-date, was the highest returning nonhealthcare fund. Rice Hall, which holds a diversified portfolio of smaller companies, has also chalked up impressive longer-term results. It returned 36 percent over the past year. Its average annual returns over the past three-, five-, and 10-year periods are 9 percent, 7 percent, and 5 percent, respectively.

While the five funds I've mentioned have recorded strong average annual returns, none of them are immune to strong market downturns. Looking at 2008 when the S&P 500 lost 37 percent, Fidelity Select Biotechnology, down 11 percent, did the best. T. Rowe Price Health Sciences, dropped 29 percent, Rice Hall James lost 39 percent, and Fidelity Select Medical Delivery fell 45 percent.

If not losing in strong market downturns is priority number one, you'll have to be satisfied with lackluster returns in strong years. For instance, the Midas Perpetual Portfolio Fund [MPERX], which is designed to generate positive returns in any market, up or down, managed a one percent return in 2008. However, in 2009, up 17 percent versus 26 percent for the S&P 500, it seriously, underperformed. So far this year, it's up only one percent. Over longer periods though, it looks better. It's up eight percent, on average, annually, over the past five years [versus 2 percent for the S&P], and up 4 percent over the past 10 years [versus 2 percent].

Another possibility is the Merger Fund [MERFX], which employs a merger arbitration strategy involving buying acquisition targets and sometimes shorting the acquiring company. Merger lost only a modest two percent in 2008. Year-to-date it's up 2 percent, and its up 4 percent, on average, annually, over the past three- and five-year periods, 3 percent over 10 years, and 6 percent over 15 years. It's only losing year out of the last 10 was 2002 when it dropped 6 percent compared to a 22 percent loss for the S&P 500. So, in essence, long term, you get more or less market returns with less volatility.

For this report, I've considered only no-load funds that are currently open to individual investors. If you're not familiar with the term, "loads" are fees [usually 5.5 percent] charged when you buy fund shares. Those fees are used to compensate the financial advisor that sold you're the fund. No-load funds do not charge such fees.

Harry Domash of Aptos, author of Fire Your Stock Analyst,' publishes the Winning Investing and Dividend Detective websites. Contact him at www.winninginvesting.com or the Santa Cruz Sentinel, 1800 Green Hills Road, Suite 210, Scotts Valley, CA 95066.