



## These Generation Funds Need Some Work

By Rob Wherry  
September 20, 2007

**BABY BOOMERS AND 20-somethings** are at opposite ends of the demographic spectrum. But both groups are closely watched by investors of every stripe, especially when it comes to their buying habits. Depending on what they wear on their backs, drive down the road or carry in their hands, the youngsters set trends that reverberate throughout the market. Meanwhile, boomers, who have accumulated record amounts of money for retirement, are expected to spend a lot of their cash on health care to help ease the aches and pains of growing old. No doubt, many stocks will either live or die based on their decisions.

Playing an investing theme in a retirement account is nothing new. In fact, regular readers of this column have perused our thoughts on everything from growth stocks to energy to Latin America. What goes unsaid, though, is that it's consumers who are often the driving force behind the rosy prospects of our picks. And no other consumers are more important right now than the boomers and, for lack of a better nickname, Generation Y. Combined, they account for around 150 million consumers.

The problem is that most of the investing products geared toward them right now are designed to attract their money rather than profit off of how they live their lives. Two funds, though, are making an attempt to do the latter by investing in the companies that will benefit from emerging trends that come out of these two groups. The GendeX fund will specialize in spotting 20-something styles while the **Generation Wave Growth (GWGFX<sup>1</sup>)** fund will combine three boomer beneficiaries — technology, health care and financial services — into one offering.

While these funds are a unique way to play the demographic theme, we aren't completely sold — at least, not yet. The underlying strategies are both lucrative and long term, but we can't get around the high fees of Generation Wave and the lack of a performance track record at GendeX. Both are cardinal rules of investing that should never be forsaken. Until those details change, even a small position in these offerings could be risky. However, we think they're still worth keeping a close eye on.

The GendeX fund doesn't launch until November, but it has already made quite a splash. Its parent company, Thrasher Capital Management, purchased a billboard ad in New York City's Times Square and the fund also has its own MySpace page. GendeX joins a long line of youth-oriented offerings, ranging from low-minimum retirement accounts from Schwab and American Century to the **Monetta Young Investor fund (MYIFX<sup>2</sup>)**. Monetta splits its portfolio evenly between a static index offering and stocks in the food, toy, Internet and retail spaces that are easily recognizable to kids. (Click here<sup>3</sup> to read our take on these products.)

Gendex is managed by James Perkins, who worked at Morgan Stanley before founding Thrasher. Perkins' primary goal is to spot an emerging trend that could come about from a TV program, an online phenomenon or an early cultural shift, like hip consumers favoring environmentally-friendly products. Think videogames, flat-screen TVs, cellphones or Toyota's successful Prius line of hybrid cars. Then he looks at valuation metrics like price/earnings and price/book ratios. Ultimately, he prefers cheap stocks with the potential to grow 25%. Once the fund is launched, investors can expect to see stocks like **Apple (AAPL<sup>4</sup>)**, **Whole Foods Market (WFMI<sup>5</sup>)**, **Ralph Lauren (RL<sup>6</sup>)** or **Volcom (VLCM<sup>7</sup>)**, a youth lifestyle brand.

"The convergence around cool things is happening much faster than it did in the past," says Perkins, pointing to everything from celebrity magazines to reality shows. In addition, he says, "this demographic has more capital than their parents did — and they are spending it in different ways."

This investing theory can be lucrative if done right. Investors who bought Apple before the launch of the iPod in 2001 have seen the stock appreciate more than 50% a year since then. Of course, it isn't always easy to spot these trends. And the Internet has made it easy for kids to get their hands on all kinds of niche products, from clothing to music. Even though Perkins says he has successfully run the strategy the last two years in a hedge fund, we would wait until the publicly available fund gets at least 24 to 36 months under its belt.

The Generation Wave Growth fund has already passed that benchmark. For the last five years, this fund has been focusing on three sectors — technology, health care and financial services — that it feels will be directly impacted by the spending habits of baby boomers as they enter retirement. In other words, they'll buy high-end TVs, hire financial advisors to mind their money and, of course, digest a wide range of drugs to stay in good health. Fidelity, the big fund family, estimates that the typical retiree will need around \$250,000 for health-care expenses — and that number continues to grow. Multiply that figure by 80 million or so boomers and you can see why this strategy makes sense.

Manager Allen Gillespie goes a step further, though. He'll play those broader themes but he's also aware of individual trends in each sector like insurance vs. banks, or software vs. Internet plays, or Big Pharma vs. biotech. Instead of always picking individual stocks, he hedges his bets a bit by investing in ETFs that can give him exposure to a wide range of companies in the areas he favors. The fund has made money during four of the five years it's been trading. However, like many of its competitors, it currently trails the market year to date. The fund's five-year average annual return of 14.4% is slightly behind the S&P 500's returns for the period. "These themes are going to play out over many years," says Gillespie. "We will try to ride those long-term trends to profitability."

Maybe so. Our sticking point, though, isn't necessarily performance — although we would like to see it improve. Rather, the fund's expense ratio is 2.32%. That's rich considering our usual cutoff is 1.5% and there are other funds out there — like target-date offerings — that offer good stock exposure at a cheap price. That should sound good regardless of your age.

Links in this article:

- <sup>1</sup><http://www.smartmoney.com/cfscripts/Director.cfm?searchString=GWGFX>
- <sup>2</sup><http://www.smartmoney.com/cfscripts/Director.cfm?searchString=MYIFX>
- <sup>3</sup><http://www.smartmoney.com/fundinsight/index.cfm?story=20070308&pgnum=2>
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- <sup>6</sup><http://www.smartmoney.com/cfscripts/Director.cfm?searchString=RL>
- <sup>7</sup><http://www.smartmoney.com/cfscripts/Director.cfm?searchString=VLCM>

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