FundReveal.com – March 2012

A Mutual Fund Observer "Best of the Web" site

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History and Focus

Investment Risk Management Systems was founded in 2009 by two former Fidelity executives, Ani Chitaley and Anthony DuBon. Chitaley was head of the quantitative Equity Trading Research Group and DuBon was a Vice President in the Fixed Income Mutual Fund Division and Enterprise Risk Management. Both worked on the FMR's institutional side, where they analyzed the firm's decision-making and decision-executing strategies. They ended up reorganizing both the organization and assessment of traders, analysts and others as part of the successful overhaul of Fido's fixed-income and trading operations.

They concluded that their research on what predicted success of a Fidelity product could be applied more broadly, in pursuit of which they founded IRMS. They launched a trial version of their site in 2009 and a full version in 2010.

They describe their strategy this way:

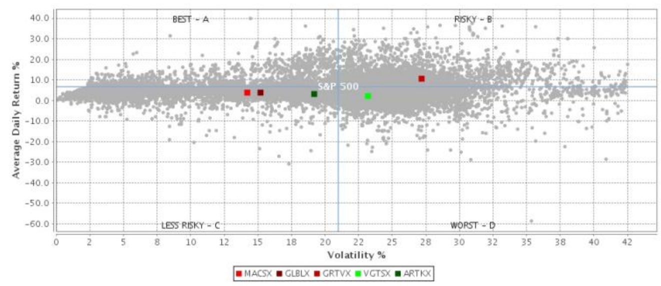
> By combining our proprietary persistence rating with each fund's risk-return behavior over time, FundReveal gives investors a rational, fact-based means of gauging future performance potential. People often invest in mutual funds based on recent total returns, but many 'hot' funds with high recent returns perform poorly in the future. Investors are better off investing based on persistence than chasing past returns.

Features

Two things stand out about the Fund Reveal site. First, it's entirely Spartan. It exists only to give investors access to their portfolio analyzer and/or fund screener. There's no editorial content, no advertising, and clutter. Second, it's a subscription-only site. That would normally disqualify a site for review except that there's a free 15-day trial membership. Annual subscriptions are $100/year for access to the portfolio analyzer or $150/year for both the analyzer and the screener.

Fund Reveal's basic insight is the understanding that volatility is critical to predicting the likelihood that a fund's performance will persist. Most other analysts compute a fund's volatility based on quarterly data, a few use either monthly or annual data. Chitaley and DuBon argue that such broad aggregates can mask a huge amount of a fund's volatility. As a result, they compute volatility using every trading day's data; that is, they have 252 data points for each fund while others rely on just 4 – 12. By comparing a fund's volatility to a benchmark's, they can compute the fraction of volatility attributable to the manager's decision-making and decision-executing.

Their argument is that excess volatility makes a fund's future performance more uncertain. For each fund, they plot risk and return on a scatterplot:



Funds in the upper left (Quadrant A) have had higher returns and lower volatility than the S&P500. "A" funds show a 70% year-to-year persistence; when they do migrate from "A" it's most commonly to "C" (lower return, lower risk).

The site crams a lot of data (and a lot of abbreviations) into a small space. It would benefit from being friendlier to new users. The "Learning Center," for example, is just a phone number.

Bottom line

FundReveal states that their "A" funds substantially outperformed the S&P500 over the last decade. However, comparing the "A" funds, which are a diversified collection of stock, bond, precious metal, currency and arbitrage funds, against a large cap stock index such as the S&P 500 is a dubious proposition. When compared against Morningstar's "Moderate Index" (40% domestic stock, 20% foreign stock, 30% bonds, 10% TIPs, commodities, cash), the "A" funds as a group largely match the index for that decade.

That said, the ability to compare the risk-return profiles of your own set of funds – to use the tool to choose about five SCV funds, one of which you're hoping to add to your portfolio – makes it an intriguing tool for any investor. The site's fund screener, available at the "advisor" level, makes it easy to locate and compare funds within standard portfolio descriptions ("moderate allocation" or "high-yield bond").

On whole, a potentially useful set of tools that the Observer will be consulting as we prepare our own profiles.