



Morningstar.com – March 2012

A Mutual Fund Observer “Best of the Web” site

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History and Focus

Morningstar was founded in 1984. Morningstar.com launched 1997. The firm went public in 2005 and aggressively expanded the scope and global reach of its enterprise. [Morningstar describes its empire](#) this way:

Morningstar provides data on approximately 375,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 5 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services and has more than \$180 billion in assets under advisement and management as of September 30, 2011. We have operations in 27 countries.

The site draws [about 1.1 million visitors a month](#). The terminally-curious might glance through Morningstar's other sites, among them their [corporate](#), [advisor](#) and [British](#) versions. Gregarious readers can even “like” [Morningstar on Facebook](#) (the photos of HQ are cool but a little sterile).

Features

While Morningstar restricts much of its information to paid subscribers, it still makes a huge amount of data and analysis available for free. Highlights include:

Fund profiles and fund screeners: even readers without a subscription get access to a huge array of current data (including portfolio data, updated monthly) on any fund that's been in existence for at least a few months. Only three bits of information (the analyst's commentary, the fund's stewardship grade, and some details on the performance of the fund's holdings) are restricted to subscribers. Likewise, Morningstar offers [a free and intuitive fund screener](#) that allows you to screen for some of the characteristics (turnover, manager tenure, expense ratio, historic risk) that *do* predict future performance, as well as the fund's star ratings.

Star rating system: The iconic one- through five-star rating is generated by a purely mathematical formula and a star rating is assigned to every fund which has been in existence at least three years. Highly rated funds draw the huge bulk of new investor money, which has helped spawn [a cottage industry aimed at criticizing the ratings](#). In general, highly rated funds

tend to have lower turnover, low expenses and longer manager tenures than low-rated funds, all of which is good for investors. In general, though, a high rating is not a good predictor of future returns.

The Analyst Rating for Funds:

Morningstar's stars are assigned by machine but it has long had a parallel set of recommendations assigned by humans. These were the “Analyst Picks,” the fund's that Morningstar's professional staff felt had the greatest prospect of future success. As it turns out, those analysts were right much more often than they were wrong. In late 2011, they began assigning grades to funds, based on the strength of their convictions about the fund's prospects going forward. Gold funds were those in which they had the greatest confidence of strong future performance, negative funds had the greatest prospect of weak future performance. Morningstar offered data to suggest [that the great majority of their picks outperform the market](#), thoughtful outsiders [attacked it as an unproductive distraction](#).

Feature articles: the Fund Spy and Five-Star Investor columns provide analysis, posted four days a week, on funds and investing themes.

The biggest dud on the site is the portfolio allocator tool, which works only if you're willing to express a preference about the industry/sector weightings that you're looking for in your portfolio. (We're not.) The biggest hassle is the sheer size and complexity of the site, which makes it easy to feel intimidated and lost. The coolest feature that folks might overlook include [Taxes visualized](#), Ira's find, visualizes the composition of a fund's or ETF's taxable distributions. It's not available on a fund's page, but if you change the ticker symbol at the end you get any fund's results. The [Market Valuation Graph](#) allows you to pick individual sectors or business characteristics and see by how much the stocks in that group are trading to a discount or premium to “fair value.” [Target date portfolio data](#) allows you to see asset allocations and glide paths for each family.

Bottom line

This is the gold standard of commercial fund sites. You need to look well beyond the star ratings. If you do, there's an wealth of information and tools available. Best taken in small doses if you're new at this.