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GETTING PERSONAL: With Sector Funds, Fidelity Says 'Me Too!'

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By Ian Salisbury

A DOW JONES NEWSWIRES COLUMN

NEW YORK (Dow Jones)--With exchange-traded funds boosting the popularity of sector-style investing, Fidelity Investments is trying to catch some of the stardust.

ETFs, the vast majority of which are index funds, have become famous for slicing and dicing the market, targeting everything from gold miners to financial stocks. Investors use them to take a rider on a single industry, as part of complex hedging bets, or to "tilt" their portfolios. They can, say, buy all nine sector funds that make up the Standard & Poor's 500, but underweight technology and overweight energy, or vice versa.

Fidelity, however, has offered investors sector mutual funds that are actively managed, relying in Fidelity's stock-picking prowess, since long before the first index-tracking ETF was invented in 1993. Now it's hoping some of the ETF buzz will help its decades-old funds gain more attention.

The popularity of ETFs "is competition," says Brian Hogan, president of Fidelity's equity group. At the same time, "it raises awareness of sector investing, so we're happy to see it."

Fidelity manages about \$80 billion in sector-related investments, with about \$32 billion in its Select Portfolio mutual funds, compared to about \$156 billion in all sector ETFs industrywide. Investors vanked money out of the Fidelity funds in 2006 and 2007. But last year, when many investors fled the stock market, the

a portfolio manager. In a research department of about 150, Hogan says 35 to 40 are now career analysts.

The Fidelity funds have also compiled a seemingly strong track record over the past decade. It's difficult to make a definitive statement about the funds' performance because Fidelity offers 41 sector funds and not everyone one lines up perfectly with an index-tracking ETF. But of the nine Fidelity funds that more or less correspond to the Select Sector SPDRs -- the best-known family of sector ETFs -- seven outperformed their ETF counterpart over the past 10 years, according to data from Morningstar Inc.

(Dan Dolan, product manager for the Select Sector SPDRs, says long-term comparisons don't say much because many Fidelity funds switched benchmarks in 2006. He adds that ETFs' lower expense ratios should give them the edge over time.)

Fidelity may still face a difficult task in marketing its active sector mutual funds. For one, sector ETFs appeal to a much broader range of investors. While ETFs are popular with financial advisers, huge trading volumes which sometimes put funds like the Financial Select Sector SPDR ETF (XLF) in the headlines are almost certainly the work of large institutions like hedge funds rather than retail investors.














By contrast, "mutual funds don't look for active traders," says Avi Nachmany, director of research at Strategic Insight.

Another hurdle is that, when it comes to sector investing, the ETF's indexing strategy holds special appeal over active management. That's because many sector investors see themselves as already placing a bet on part of the market when they choose one corner of the market over another. Relying on an outside portfolio manager to then pick individual stocks within that narrow corner adds complication they many not want. It can also make it harder to gauge what is in the fund.

"If I'm in a sector fund, I am doing the active management," says Steve Podnos, a financial adviser based in Merritt Island, Fla. "I don't want a second layer of active management on top of me."

(Ian Salisbury is a Getting Personal columnist who writes about personal finance; he covers topics including exchange-traded funds and separately managed accounts. He can be reached at 212-416-2241 or by email at ian.salisbury@dowjones.com.)

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