

Five U.S. equity funds likely to outperform

Of a total of 300 medalist funds, we look at three that are Gold-rated and have five stars.

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October was a volatile month across the globe, with several indices tumbling. The U.S. markets suffered as well -- the NASDAQ Index was down around 9% in October, while the broader S&P 500 Index lost around 5.5%, when converted to Canadian dollars.

The S&P/TSX Composite Index was down close to 6% in October.

For Canadians looking to diversify their portfolio out of Canada and participate in the U.S. market, U.S. equity mutual funds are one option. There are more than 2000 U.S. equity mutual funds in Canada; of these, close to 300 are medalist -- rated Bronze, Silver or Gold via the Morningstar quantitative rating. The forward-looking rating picks funds that are likely to outperform in the future, based on various metrics including price, portfolio and performance.

To further narrow down the list, we looked at the Gold rated funds, of which there are 35, and from those, we looked at funds with a 4- or 5-star rating, which indicates that they have outperformed their category peers on a risk-adjusted basis.

Here is a list of five Gold-rated funds that have an overall 4- or 5-star rating, and a detailed look at three of these funds that have a 5-star rating.

Name	Quant. Rating	Category	Star Rating
Sun Life MFS U.S. Growth F	Gold	US Equity	5
TD U.S. Blue Chip Equity - F	Gold	US Equity	5
Dynamic Power American Growth Ser F	Gold	US Equity	5
Manulife U.S. Equity F	Gold	US Equity	5
Capital Group U.S. Equity Canada F	Gold	US Equity	5

Data as of Oct. 31, 2018. Source: Morningstar

Sun Life MFS U.S. Growth is a 5-star gold-rated fund that invests mostly in large- to giant-cap stocks. The fund is heavily overweight on technology. It holds all of the FAANG stocks, as well as Microsoft (MSFT), Visa (V), Adobe (ADBE) and Mastercard (MA). The top 10 holdings account for around 40% of its portfolio. Since its inception, in 2010, the fund has delivered an annualized return close to 17%. It has multiple managers, but has had Eric Fischman

on its management team since inception, and the F-class version has a management-expense ratio of 1.36%. Though it does not have a sustainability mandate, the fund has a Morningstar sustainability rating of Average.

TD U.S. Blue Chip Equity has returned close to 17% annualized over 10 years. The fund has an above-average standard deviation, but has also delivered above-average returns. It is heavily overweight in consumer cyclicals and technology, and both sectors have helped it build good returns recently. It mostly invests in large- to giant-caps, and the top 10 holdings account for 44% of its portfolio. Some of its holdings include Amazon.com (AMZN), Facebook (FB), Microsoft (MSFT), Alphabet (GOOGL) and Booking Holdings (BKNG). The fund has been managed by Larry Puglia since 1996.

Dynamic Power American Growth was one of the top performing funds in the third quarter of 2018. The fund has returned more than 17% annualized over 10 years. However, it is very important to note that this is a high-risk fund. Its standard deviation is almost double the category average over three years and is also higher over 10 and 15 years. Having said that, it has also returned higher than the category average. What's important to remember with this fund is that the highs are very high, but the falls are painful. For example, it gained more than 50% in 2013, but in 2008, while on average the category lost 28%, this fund lost nearly 44%. The fund, managed by Noah Blackstein, invests in mid- to large-cap companies. It is heavily overweight on technology and healthcare, and is underweight on financial services.