

The Limits of Fund Rating Services

	Fund A	Fund B	Fund C	Fund D
Morningstar (Dec 2000)	★★★★★	★★	★★★	★★★★
Forbes (Dec 2000)	C	A	A+	D
US News & World Report (Dec 2000)	34	50	10	93
Wall Street Journal (Jan 2001)	E	C	A	B
BusinessWeek (Jan 2001)	A	No Rating	B+	C

- Funds A, B, C, and D are actual funds. They are not identified because the purpose of this illustration is to emphasize that ratings, by themselves, do not provide enough information to make a sound investment decision.

True insight arises from scientific evaluation of the sources of return in a portfolio. A prospective investor should understand how much of a mutual fund's performance is based on risk factor exposure and how much is the result of unexplained forces and random error.

The chart suggests that mutual fund ratings offered through professional services and the financial media are anything but scientific. Funds A, B, C and D represent actual funds that received grades or ratings from the respective "expert" sources.

Proper investment analysis requires a consistent and clearly explained methodology. Before relying on any mechanical rating system to select investment managers, investors should thoroughly understand how the rating was determined.