



## Letter to the Editor – Morningstar Ratings

December 22, 2009

*The following is in response to our article, [Morningstar Ratings Fail over a Full Market Cycle](#), which we published two weeks ago:*

Dear Editor,

I usually don't respond to articles. By the time you receive this, my response may be stale. I am, however, compelled to say something.

I know advisors who use Morningstar's rating system the way your article assumes and honestly it's quite sad to know that such unthinking goes on among my peers. But it does.

I don't know who said this, but there is a comment I have always attributed to Morningstar's CEO. Maybe this is too gratuitous and inaccurate, but the comment is that the gist of the defense for the star system can be found in the name "Morningstar." Morningstar denotes "first light" and is intended to be taken as a premise to the rating system itself.

Whether the comment is accurately attributed to the company or any of its people is irrelevant to me; it has served me well for 20 years. The comment has become a point of contention and has led to spirited discussions nearly every time I evaluate a fund for inclusion in our universe of selected funds. I rarely agree with Morningstar's rating.

I still value the system because I understand of how the rating is generated and applied and use it as a first glance. We use funds that are one star, five star and every other number in between. I would never use the rating system in any predictive manner, but I cannot avoid noticing what first light says about the fund.

And, understanding how it is designed, I find it valuable if for no other reason than as a foil against which to hone my own hard-nosed analysis – which fortunately Morningstar also provides the most productive tools to utilize. Morningstar allows us to arrive at our own conclusions AND more importantly to justify our use of every fund we select, in spite of its rating. If the fund is highly rated, so be it; that rating may be fleeting over the next few years and we'll likely still own it. If the fund is lower rated, we'll use Morningstar data to demonstrate why we selected it anyway. It's very likely having done so that the rating will rise to the occasion and justify our selection.



It could be argued that the system is so widely misused and misinterpreted that it should be scrapped altogether. But then what would one put in its place that would garner enough attention to make it commercially viable? I'll stick with what they've got and continue to benefit immensely from what I believe is its proper use.

P.S. I'd love for someone to do some journalistic investigation to determine the origin of the name Morningstar and its connection to the "first light" I reference. It would be interesting to know where I actually heard it.

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