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## **Advisor Perspectives Releases Study of Morningstar's Mutual Fund Ratings**

*Data shows the predictive value of the new ratings methodology and advisor holdings by rating category*

**LEXINGTON, MA – October 30, 2007** – Advisor Perspectives released a series of three studies examining various aspects of the new Morningstar mutual fund rating methodology. The studies offer comprehensive insight into the predictive value of the rating methodology, which went into effect in mid-2002.

The first study, done in conjunction with Morningstar, shows the probability of a randomly chosen fund with a specific rating outperforming a randomly chosen fund with a different rating over a three-year period. The second study critiques the academic research that has been done on the new ratings methodology, assessing the usefulness of the research from the advisor's and investor's perspective. The third study shows advisor holdings of mutual funds by different rating categories.

Significant findings of the studies include:

- Based on performance data for the three-year period 2004-2006, ratings for Balanced, Taxable Bond, and Muni Bond have the most predictive value. Ratings for International Equity funds have the least predictive value. Ratings for U.S. Equity funds have more predictive value than for International Equity funds, but are not as predictive as for funds with a fixed income component.
- The analyses show that the predictive value of ratings is 'monotonic,' in that 5-star funds will outperform 4-star funds, 4-star funds will outperform 3-star funds, etc. Data is provided showing, for example, the probability of a randomly chosen 5-star fund outperforming a randomly chosen 4-star fund.
- The academic research on the new ratings methodology reveals that, almost universally, funds in all rating categories fail to provide positive alpha. Thus, regardless of the rating, investors would be better off in index funds than in actively managed mutual funds.
- Advisors holdings of actively managed mutual funds are most concentrated in 4-star funds, with smaller holdings in 3-star and 5-star funds. Holdings in 1-star and 2-star funds are a small part of overall portfolio assets.

Commenting on the studies, Advisor Perspectives CEO Robert Huebscher noted, “Our goal was to answer a very basic but extremely important question, “Does the new Morningstar ratings methodology provide useful predictive value for investment advisors?” With three-plus years of data now available on the effectiveness of this methodology, we can now offer advisors actionable guidance. Overall, the data shows the ratings have predictive value, and our studies highlight this value as well as the limitations of the ratings.”

Complete copies of the studies are available: [Morningstar's Analysis of their New Ratings Methodology](#), [The Predictive Power of Morningstar's New Rating System](#), and [Do Advisors Hold Higher Rated Funds?](#).

For more information, please visit [www.advisorperspectives.com](http://www.advisorperspectives.com).

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