

FOMF Gains with Hedged Edge

By Jacob Bunge, Financial Correspondent | Friday, February 02, 2007

LAKE ST. LOUIS, Mo. (HedgeWorld.com)—ThomasLoyd OPTI-flex, a fund of mutual funds, has topped the Dow Jones Wilshire 5000 stock index for the past three years, and part of the credit can be claimed by the fund's portfolio of alternative investments.

Approximately 10% of the OPTI-flex fund's assets are in strategies such as long/short equity, market neutral, distressed securities and arbitrage, Jeff Unterreiner, the fund's portfolio manager, said in an interview. Another 10% of assets are in a short-term trading fund managed by Mr. Unterreiner himself, which stays mostly on the long side, but sometimes will take short positions lasting anywhere from a few days up to a month.

This strategy enables Mr. Unterreiner to go double short or double long on positions, which has served the fund well in the past—in 2003, he said he took advantage of an overpriced position to go double short on the Nasdaq at a time when the market dipped. The overall market lost 5% to 6%, with the Nasdaq down 7% to 8%, but with its double-short OPTI-flex was down only 1% to 2%, according to Mr. Unterreiner.

For 2006, the fund finished up 17.51%, ahead of the DJ Wilshire 5000, which returned 15.77% and the Standard & Poor's 500 stock index which returned 15.81%. In 2005, OPTI-flex returned 10.07%; in 2004, 16.5%; and 2003, 28.95%. Mr. Unterreiner took over management of the fund in August 2002, and it ended that year down 11.59%, but still remained ahead of the DJ Wilshire 5000, which lost 20.9%.

In the four-and-a-half years he's overseen OPTI-flex, Mr. Unterreiner said that his alternative allocations neither outperformed nor underperformed. "The performance has been about the same, but it's not coming from the same place," he said. "In 2003, the short-term trading portion did really well when the market was down. It hasn't been highly correlated with the rest of the portfolio, which adds consistency to our performance."

While the leveraged portion of the short-term trading strategy carries more risk than the rest of the portfolio, Mr. Unterreiner said, that risk is not necessarily correlated, and neither are the other alternative strategies. This keeps the greater portfolio's risk more balanced. Total expenses for the fund are 2.4% for C shares and 1.65% for A shares.

Half of the OPTI-flex portfolio is concerned with getting the big picture right—Mr. Unterreiner has a long-term view of the market, which went positive in early 2003, and so 50% of the fund's assets are in stocks. Ten percent is in a bond position, 10% goes for core value funds, and 10% is in a focused fund position comprising the manager's best ideas, concentrated in 10 to 20 stocks, mostly long.

Mr. Unterreiner said that stocks as a whole look attractive now, and no particular industry groups jump out at him, although he said that most growth stocks' premium has been taken out of the market. "Small-caps realized most of the potential they had from better valuations four years ago," he said.

Last year, small-caps proved to be OPTI-flex's best and worst investments—the fund kept its stock positions fully exposed in the second quarter, when the market went south in May and June, putting the fund 12% in the red. But Mr. Unterreiner, convinced it was a short-term decline, stuck by his position, and ended up outperforming.

He's sticking with a significant small-cap concentration at least through February, which Mr. Unterreiner said is seasonally a strong period for such securities. OPTI-flex also has a sizeable position in international stocks, and he said he sees potential in emerging markets, particularly in Asia.

As for alternatives, Mr. Unterreiner said in theory he could see increasing the fund's exposure to 40% from 20%, if stocks begin to look overpriced, but he doesn't want one such strategy—say, the short-term trading—to become too big a part of the portfolio. It's not the right fit for his client base, he said.

"We're running this [fund] to be appropriate for a person's life savings, so we don't want to manage with an all short-term outlook," Mr. Unterreiner said. "We've been an investment adviser for 25 years, and 10 years ago we created this fund to essentially give the same portfolio management approach in the simplicity of a single mutual fund. I think there's a need for that."

IMPORTANT INFORMATION

The performance data quoted represents past performance. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted.

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