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Rebound lifts hopes of Hoosier funds

Upstart Archer adds portfolio manager, shoots for growth

By **Peter Schnitzler**
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The economic downturn walloped all three of the mutual funds headquartered in Indiana. But they've each enjoyed significant recoveries this year. And the smallest of the bunch has big plans to break away from the pack.

Troy Patton quietly launched his first mutual fund—the Archer Balanced Fund—in September 2005 with eight investors. It posted a 13.2-percent return in 2006, its best year. In last year's stock-market swoon, Archer suffered a 25.7-percent loss. But many other mutual funds fared much worse, and the S&P 500 fell 38.5 percent.

Through September of this year, the Archer Balanced Fund is up 9.5 percent. That may not sound spectacular, but returns aren't Patton's only goal. He's also attempting to simultaneously reduce investment risk and management fees.

"We're not real sexy. We don't have the big swings. We're sexy because we're not sexy."

Troy Patton, Archer Balanced Fund president

"We're not real sexy. We don't have the big swings," Patton said. "But we're sexy because we're not sexy."

Patton's approach is starting to gain traction. As a result, his Indianapolis-based Archer Balanced Fund now has nearly $11 million under management. Patton believes he can replicate the formula. That's why he's putting the framework in place to create a family of four mutual funds under the Archer brand, each with a different mix of holdings.

Archer, like the other Indiana-based funds, struggles to gain attention in a crowded field. The United States alone has more than 8,000 mutual funds, which hold assets topping $9.2 trillion, according to the Washington, D.C.-based Investment Company Institute. Institutions like American Funds, Fidelity and Vanguard dominate the industry, counting their mutual-fund holdings in the tens of billions.

Indiana's funds, by comparison, are minuscule.

A mutual fund the Columbus-based investment firm Kirr Marbach and Co. launched in 1998 now has $25.8 million in assets. Bob Auer, a former vice president of investments at Morgan Stanley, launched his Indianapolis-based Auer Growth Fund in December 2007. That fund has quickly grown to $152.8 million in assets.

The real heavyweight among mutual fund managers here—Tom Pence—isn't running local funds. Pence, who gained star status after posting spectacular returns at Conseco Capital Management in the 1990s, leads a local investment team for San Francisco-based Wells Fargo & Co. that manages four funds with assets topping $3.4 billion. He was not available for comment for this article.

Demas

Archer is the newest aspirant to the big leagues. In April, Patton brought aboard Steve Demas, a stockbroker who formerly oversaw $120 million as a Morgan Stanley vice president. Demas, 42, serves as portfolio manager at the five-person firm.

When selecting stocks for the Archer Balanced Fund, Demas focuses on their market prospects and price-to-earnings ratios. Meanwhile Patton, a CPA, hones in on their business fundamentals, like cash on the balance sheet and quarterly profits from continuing operations.

The pair met 17 years ago in an investment club and became friends because they liked each other's stock picks. Since

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Capless season a threat to Colts

Without labor deal by March, small markets may suffer

By Anthony Schoettle
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The prospect of a 2010 National Football League season without a players' salary cap could cause high-profile free agents for the Indianapolis Colts and other small-market teams to gallop off for greener pastures.

A clause in the current collective bargaining agreement between the players' union and the league's 32 owners calls for next year's season, the last under the current contract, to be played without a salary cap if a new contract for 2011 and beyond isn't agreed to by next March.

If a new agreement isn't hammered out by then, the NFL would play its first capless season since 1993. The capless season was installed into the current pact between players and owners as a poison pill against such a scenario. But now, many players—and even some owners—are embracing the idea.

Some owners think not having a cap will help them overhaul the entire player- pay structure in their favor. Officials for small-market teams like the Colts are not among those excited by the prospect.

Colts officials referred all questions on the matter to the league office in New York. At meetings held earlier this year—including one in Washington, D.C., on Sept. 28—owners have urged calm and restraint among their own

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Educators divided

Teacher-training overhaul threatens college budgets

By J.K. Wall
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Jeff Steinbronn, a former Navy submarine navigator and instructor, started teaching at T.C. Howe Community High School two years ago and coached the Indianapolis public school's science quiz bowl team to two state science titles in the Indiana Academic Super Bowl competition.

Only after that did he get his degree in education.

"If you're teaching how to handle radioactive materials, it shouldn't be too hard to teach high school," said Steinbronn, 48, who has since taken a job at Warren Central High School.

Indiana's schools need more teachers like Steinbronn, according to Tony Bennett, Indiana's superintendent of public instruction. And Bennett says he's trying to change teacher licensing rules to make that happen.

Bennett wants to cap the number of hours that teacher candidates could take in the methodology of teaching, also known as pedagogy, to force students to take more content courses and to lower the barriers for career changers with skills in subjects like math or biology.

But Bennett's proposed rules are a threat in the eyes of most deans of Indiana's colleges of education—both to the quality of teacher training and to the budgets of the colleges.

That's why sleepy and arcane changes to licensing rules have opened a contentious debate about how best to get top-quality teachers into Indiana's public schools and, by extension, how to adequately equip all Hoosiers for an economy that now depends more on their heads than their hands.

"If you start threatening people's profit-loss ratios, they get pretty animated about it," said Lindan Hill, dean of the Marian University School of Education in Indianapolis. Marian is where Steinbronn did his accelerated training, which was part of a partnership between

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Patton

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then, Patton, 40, has founded two accounting firms. His first, Frontier Financial Holdings Inc., had 10 offices and 80 employees when he sold it in 2004. The second, Patton and Associates LLC, now has eight employees and $950,000 in annual revenue. It focuses primarily on business valuations.

The Archer Balanced Fund aims for 70/30 percent split between stocks and bonds. It currently holds 37 stocks, with its heaviest weightings in health care, energy and utilities because Patton and Demas worry about rapidly rising inflation on the horizon. They figure those industries will at least be able to pass price hikes to their customers.

Once the Archer Balanced Fund reaches $50 million in assets, the pair plans to launch a second mutual fund, likely focusing on large-cap stocks. Eventually, they aim for a third and a fourth. But they pledge to continue offering clients something bigger mutual funds don't: accessibility.

"How many people have access to even talk to a portfolio manager? They really don't," Patton said. "We can still offer personal service. I'll answer the phone. Steve will, too."

Financial performance is the first standard in the mutual fund industry. Investors can stomach a bad year—even an outlier like 2008—as long as managers consistently make money.

That's why a recovery is so important for all of Indiana's mutual funds. The funds managed by Wells Fargo's Pence, for example, suffered losses from 43.6 percent to 46.3 percent last year. But they've all rebounded in 2009, with gains from 16.6 percent to 24.6 percent.

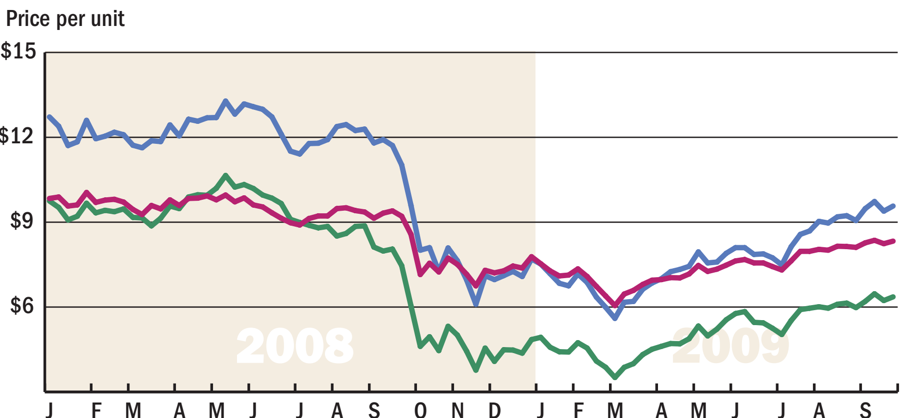
Service is one of the few ways a small mutual fund can differentiate itself in a crowded industry. After all, there are more mutual funds than there are public stocks. And heavily advertised international brands like Schwab and T. Rowe Price enjoy an enormous advantage.

"When you're part of a fund family, it's easier to get attention," said Purdue University business professor Sugato Chakravarty. "It's like [a book] being published by Simon and Schuster, with prepublication orders over a million, versus a small regional publisher. When you're part of a big fund family or brokerage house, you get that reflected glory and attention."

Auer has a few tips about how small independent mutual funds can stand out.

Mutual fund rebound

Indiana-based mutual funds have all rebounded after enduring big losses last year.



	Archer Balanced Fund	Auer Growth Fund	Kirr Marbach Partners Value Fund
Inception	2005	2007	1998
Assets	$11 million	$152.8 million	$25.8 million
Return this year	9.5 percent	37 percent	28.8 percent
2008 return	-25.7 percent	-53.3 percent	-44.9 percent

Source: Morningstar Inc.

IBJ Graphic/Brad Turner & Peter Schnitzler

His fund's investors last year suffered a 53.3-percent loss. But so far this year, the Auer Growth Fund is up 37 percent.

Building relationships with lots of independent investment advisers is Auer's bread and butter for attracting investors. But a savvy approach to cultivating publicity hasn't hurt. Auer has been interviewed on CNBC 20 times. He's also made appearances on Bloomberg News and Fox News. And major financial publications, including *The Wall Street Journal*, *Barron's* and *BusinessWeek*, have written articles about him.

The national attention isn't arbitrary. It was cultivated with the help of a PR firm. Auer spends several days each month in New York visiting the financial press. His big break came when, during one trip, CNBC's plans to interview someone else for a segment fell apart at the last minute. Auer stepped in and performed well. His credibility as a guest expert snowballed from there.

"Now they like us," Auer said. "And they call us. We don't call them."

Kirr Marbach runs the only Indiana fund that's part of a traditional money-management firm.

The $25.8 million in its Kirr Marbach Partners Value Fund represents only about 8 percent of the $340 million it manages for clients. The fund is up 28.8 percent this year after slumping 44.9 percent in 2008.

Like Patton and Auer, Kirr Marbach Chief Investment Officer Mark Foster says he's following the same methodology this year as last in stock selections. He attributes the wide swings in returns to the recession, which dragged many fundamentally sound companies down to bargain basement prices. Their recovery has fueled mutual funds' rebound.

"There were a few we were scratching our heads about saying there's no reason for sales at this level, given cash and the balance sheet," Foster said.

But this year's growth probably won't be enough to erase investors' memories of their tough losses in 2008. As result, mutual funds—especially small or independent ones far from Wall Street—may face an even steeper uphill battle for attention in the days to come.

Foster noted that it took nearly seven years for the dust to clear after the deep recession of 1973. In the aftermath, many investors shied away from stocks and gravitated instead to less risky holdings, like bonds and money-market funds.

"There's a risk you could see that this go-around as well," Foster said. "I've done this 30 years and I never saw a market so ferocious on the downside."•