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Investor Group Zeros In on Index Funds

FUND TRACK

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Dow Jones Newswires

At Zero Alpha, the philosophy is, don't even try to beat the market — even when the market sinks, as it has in the past several trading days.

This network of financial advisers across the country figures that if you are in the market for the long term, you ultimately will fare better with mutual funds pegged to market indexes—rather than actively managed funds.

Besides, index funds carry lower fees because the managers rely on formulas to pick stocks, observes Jeff Buckner, Zero Alpha's founder and an adviser with PlanCorp Inc., in St. Louis. Moreover, their popularity during the bull market has led to a wider selection. Index funds try to duplicate the performance of a set of stocks, or an index, such as the Standard & Poor's 500.

Jack Calhoun, of Atlanta-based Capital Directions, a Zero Alpha member, says he puts new clients through a six-month education process aimed at keeping them from panicking when the market drops. "We convert them from a Wall Street mentality to our mentality—that this isn't a game," Mr. Calhoun says.

Certainly, index funds have been big winners, outpacing actively managed funds in the past few years. But given the market's slide late last week, the question of the moment is, are Zero Alpha and other proponents of index funds overly confident? Another timely question: Will ac-

tively managed funds outshine index funds if the market continues to slip?

Mr. Calhoun's view is that whatever happens in the next few months or even years, "we do know that in 10 years, the market will be higher than it is today. Any moves at this point would be market timing. That doesn't work."

But critics say index funds, by simply trying to match the market's movements, offer more risk than actively managed funds, which can sell securities before prices drop significantly. Others say financial advisers who push index funds are lazy, reluctant to do the research required to recommend actively managed funds. As Arthur Zeikel, chief executive officer of Merrill Lynch Asset Management, puts it, it's hard to know if such an adviser "is stupid or smart."

David Diesslin, an adviser with Diesslin & Associates Inc., in Dallas, believes the bull market is "topping out. When we're on our way down, the argument for actively managed funds will come back."

The Zero Alpha firms don't buy such arguments. "People who are reluctant to use an index fund are just paranoid or aren't giving their clients enough service," Mr. Buckner says. "I think Zero Alpha is a perfect example that you can get paid to invest passively."

Mr. Buckner, who has been advocating index funds for eight years, says the group started as a handful of advisers exchanging index-fund information through conference calls and newsletters. The group is now made up of seven advisory firms representing \$1.1 billion.

The group's name is derived from its philosophy. "Alpha" is the industry sym-

bol that measures a fund manager's ability to beat the market. The group believes that doesn't usually happen.

Mr. Buckner says Zero Alpha members aren't required to invest solely in index funds, but most do. His own firm has only about \$20 million of its \$160 million under management in actively managed accounts.

The \$20 million in actively managed funds, however, is a leftover from an earlier era. Since 1989, the company has shifted completely out of actively managed funds. New PlanCorp clients are 100% invested in index funds.

"Moving that money [\$20 million] would have tax consequences for our clients, so it's not an option," Mr. Buckner says.

As a result of its growth, Zero Alpha has gained the attention of some of the biggest investment names in the business. In July, the group had a private audience with Vanguard's chairman, John C. Bogle.

Zero Alpha met with Gus Sauter, manager of the \$41.55 billion Vanguard Index Trust 500 Portfolio, and Ken Volpert, manager of Vanguard's index bond funds. Managers from Charles Schwab, First Trust and Dimensional Fund Advisors have also held meetings with the group.

DFA, which offers a large line of index funds, has been particularly friendly to Zero Alpha, giving the group access to some funds with restricted admission, including the \$1.28 billion DFA U.S. 9-10 Small Company fund. That impresses Stanley Altmark, an adviser with Joel Isaacson & Co., New York, who isn't part of Zero Alpha. DFA "can be very picky," he says.