FUNDWATCH

# The Hot Hand at Alger

*An early call in technology has turned this volatile group of funds into chart-toppers.*

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WHAT A YEAR it's been for the Alger family of mutual funds. Alger Capital Appreciation, up 65 percent through mid-August, is the best aggressive-growth fund this year; the Alger Defined Contribution Small Cap fund, up 64 percent, is the best small-company fund, and the Alger Balanced fund, up 25 percent, is the best balanced fund. In fact, head fund manager David Alger accounts for four of the 10 best-performing funds this year, including one fund he oversees for Idex. No other fund family or manager even comes close.

But before you grab your checkbook, the Alger record deserves more careful scrutiny.

The basic Alger style is "momentum investing," meaning the funds try to find the fastest-growing companies they can and place big bets on them. While this strategy sometimes produces huge gains, like it has this year, it can also result in lukewarm performance when hunches don't pay off. From 1992 to 1994, for example, an attachment to health care and tech stocks in Alger Small Cap served the fund poorly in a market that generally favored value stocks. It managed just a 12 percent return over those three years, while its peers averaged more than 30 percent.

The 51-year-old Alger likens his funds to a football team that falls behind by 20 points after three quarters, then scores 50 in the fourth quarter to trounce the opposition. "In good years, we have huge gains. In bad years, we may only be up a few points, but then we'll have another huge year," he says.

**David Alger:** *Riding tech to the top.*

But unlike other good funds with a reputation for hitting enough home runs to carry them through lean years, such as Twentieth Century Ultra or the Kaufmann Fund, Alger's performance doesn't always justify the bigger swings he takes. His Small Cap fund, for example, carries an alpha of negative 4 percent, meaning that it has underperformed the market by four percentage points given the volatility of its holdings. This fact, coupled with the fund's solid but not stellar five-year load-adjusted return of 14.6 percent, explains why Alger Small Cap has never been one of our Superstar funds.

The less-visible Alger Growth fund, however, is another story. With an alpha of 3.5 and a five-year load-adjusted return of 14.1 percent a year, the fund just missed making our Superstar team this year. The $127 million fund did, however, make our screen of the best broker-sold funds in the August issue ("Earning Their Keep"), based on its strong five-year record. So far this year the fund is up 42.8 percent.

Alger's hot hand this year is due to the funds' early concentration in technology stocks. Early on in the summer of 1994, he loaded up on the sector and entered the year with his portfolios' average technology weighting at around 40 percent. He then proceeded to sit back and watch as stocks like Applied Materials and Maxim continually posted new highs.

Outside observers are impressed by Alger's performance this year, but are looking to see how he does when the ride in tech stocks ends or at least slows down. "Dave has really caught the wave this year, but the issue will be whether he can dismount without getting hurt," says Michael Lipper of Lipper Analytical Services. For his part, Alger says he's not ready to dismount just yet, forecasting strong performance in tech stocks at least through the end of the year. —*Nelson Wang*