

Traders work on the floor of the New York Stock Exchange. Stock funds posted their largest first-quarter returns since 1998. RICHARD DREW/AP

Market lifts hopes of fund managers

Several lauded mutual funds back on track after dreary 2011 results

By Mark Jewell
The Associated Press

BOSTON — The stock market has taken a 180-degree turn. Those bold enough to take on risk were rewarded as stock funds posted their largest first-quarter returns since 1998. Diversified stock funds returned an average 12.3 percent, according to Lipper Inc.

That's been a welcome shift from 2011, when U.S. stock funds lost an average 2.9 percent, and limiting risk was the best approach.

Technology companies and bank stocks were a key part of the shift. The outlook for both sectors has improved, and their rapid turnaround has produced surprising first-quarter results for mutual fund managers. A half dozen renowned managers are again beating their peers by big margins, after trailing the vast majority last year.

Here's a look at the best-known managers among that group, and how they got back on track:

» Bruce Berkowitz: The manager of Fairholme Fund is enjoying a worst-to-first turnaround. Fairholme posted a 31 percent first-quarter return, best among hundreds of large-cap value mutual funds.

Fairholme finished last in 2011, losing more than 32 percent while the Standard & Poor's 500 index returned 2 percent. It was an unwelcome surprise for Fairholme investors who earned an average 13 percent a year from 2000 through 2009.

» Bill Miller: This renowned manager made his name beating the S&P 500 for 15 consecutive years through 2005 at Legg Mason Value Trust. Yet he's had mostly disappointing results since, including a 35 percent loss last year at the fund he now manages, Legg Mason Capital Management Opportunity.

That fund came back to post a nearly 26 percent first-quarter return, beating nearly all its peers. As with Berkowitz, the turnaround is being driven by the resurgence of financial stocks.

» Bill Gross: His PIMCO Total Return fund returned 2.8 percent in the first quarter, in the top 13 percent of intermediate-term bond funds. That's nothing spectacular for Gross, but his fund returned just 3.7 percent last year, trailing nine of 10.

The fund's turnaround is, in part, due to Gross's recent investment in mortgage-backed securities, which have rallied this year.