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Funds that stayed the course paid off

• Analysts expect the economy to shift into low gear as it keeps chugging up the hill this year.

By NEAL ST. ANTHONY

The interesting thing about investing is that sometimes the "do nothing" strategy makes you money.

Many mutual fund and other investors are infamous for selling their retirement funds at the wrong time, when the stock market is down and the veritable sky appears to be falling.

Last year proved, if nothing else, that the world's governments will bail out silk-stocking bankers, flood the system with enough cash to bathe a billion millionaires and keep interest rates low enough and government guarantees high enough to avoid panic.

That managed to give us the Great Recession instead of a second Great Depression.

Thanks to a little confidence creeping in by last March, the over-sold stock market paid off for stock-fund investors who stayed the course, or upped the ante, after a horrible 2008. That was in the face of apocalyptic pronouncements from a lot of doomsayers.

The gains among money managers and investors were widespread, almost as good as some short-sellers did in 2008 betting against the housing and other markets.

The best place to be was in emerging-market funds focused on Asia and Latin America, including the China-centric Sit Developing Markets Growth Fund, up 74 percent, after fees, compared with a -55 percent total return in 2008, according to Morningstar, the mutual fund analyst.

That was followed by strong performance from U.S. stock-and-real-eastate funds, including U.S. Bancorp's First American Large Cap Growth, up 33 percent, and Thrivent large cap growth, up 39 percent.

Riversource, the mutual fund family of Ameriprise Financial, saw its precious metals and mining fund grow 50 percent last year. That's proof that investors remained worried about the value of the dollar and other financial assets. Nothing wrong with diversification.

In all, the stock market recovered about half of what it lost over the 18-month slide between the peak of October 2007 and March 2009.

Many analysts believe the world economy, although haltingly, has resumed growing. But the volatility that has been the hallmark of investing for the last decade may not go away because the market's greed-and-fear gravitational pulls, as well as the global economy, are now reflected in just about everybody's portfolio.

"The U.S. market is starting to mirror the international market because U.S. companies are much more global and they're trying to pick up the growth of the emerging markets where the standard of living is lower, and they are starting their industrialization eras," said Roger Sit, chief investment officer of Sit Investments and portfolio manager of Sit Developing Markets Growth. "You really have to diversify your portfolio. There is a lot of volatility in our and everybody else's developing market funds."

In short, the Sit developing market fund is up about 15 percent annually over the last five years, a tremendous run. But you have to be willing to stomach the roller coaster.

Conversely, big U.S. stock funds tied to the Standard & Poor's 500 are up very little over the last decade, thanks partly to the telecommunications bust and the financial-sector bust from which we are still emerging.

Like most analysts, Greg Kulka, a veteran stock-and-bond adviser and president of Edina's Guardian Wealth Advisors, expects the stock market to grow this year, albeit at a slower pace for a couple of reasons.

"Corporations have cut costs and employees to the bone," Kulka noted. "More revenue can fall more quickly to the bottomline, helping all equities."

Indeed, corporate America, always slow to rehire, is expected to markedly improve profits in 2010 thanks to a smaller, more-productive workforce.

Kulka also expects technology companies to do well because corporations are starting to invest after delaying equipment upgrades. And health care should do well. Those stocks were off last year amid uncertainty about health legislation that now appears favorable to big insurers and providers.

Brian Belski, chief investment strategist with Oppenheimer Asset Management in New York, and who grew up in the Twin Cities investment trade, went positive on the market early last year amid guffawing from bearish colleagues. He remains positive about 2010.

"We believe that the U.S. is well on the road to recovery and that concerns regarding the budget deficit and inflation are misplaced," Belski said last week in a report that also projects higher taxes downstream for affluent investors, more fiscal restraint than expected by the Obama government and smaller deficits as a percentage of national economic output.

Most bond funds scored 10 to 20 percent increases in value last year, as the Federal Reserve kept interest rates in the basement.

There's still a lot excess capacity in the economy and the Fed is talking about starting to wring out some of the excess cash as the economy starts to warm. That should be good for bond investors. But don't expect double-digit returns again this year.

And Kulka noted that even a small increase in rates, which could happen this year, will curb fixed-income returns.