ACTIVE TRADER EDITION

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ON INVESTING

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If the Shoe Fits...

Value, growth, or momentum—find the right investing style for you

CHARLES SCHWAB ON:

- Eight basic trading guidelines
- How to use moving averages
- Winning bond strategies

More Than Half of American Households Now Own Funds

A lot of mutual fund managers would probably like to forget 2001. But while fund performance suffered along with the overall market, the industry did see one bright note: An annual survey by the Investment Company Institute (ICI) showed that the percentage of American households that invest in mutual funds climbed over 50%.

According to the survey, the estimated number of U.S. households owning mutual funds increased to almost 55 million, or 52% of the total, in the first half of 2001, up from nearly 52 million households, or 49%, the year before. The number of individuals who own funds rose to 93.3 million from 89.7 million in 2000. So now, the survey shows, one out of every three people in the United States is a mutual fund investor. (The figures are based on a survey of 3,019 randomly selected households, conducted in May 2001 and released in October.)

The ICI suggests that the increase was driven by participation in defined-contribution retirement programs, such as 401(k) plans. But the organization also found an increase in the percentage of investors who own funds outside of programs sponsored by employers. In May 2001, one-third of U.S. households held mutual funds in employer-sponsored retirement plans. A somewhat larger share, 38%, owned funds in taxable accounts; traditional, rollover, or Roth IRAs; and variable annuities.

Separately, the ICI reported that mutual fund redemptions totaled $29.5 billion in September, after the terrorist attacks on New York City and Washington (in August only $4.8 billion were withdrawn). Although that was a large sum in dollar terms, the $29.5 billion figure represented less than 1% of total mutual fund assets. —*JAA*

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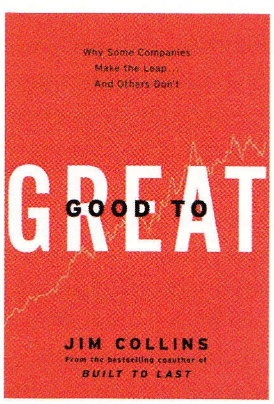
Good, or Great?

Nothing beats cold, hard facts. Well-conducted research based on reliable data, exhaustive examination of media coverage, and probing personal interviews of the decisionmakers who created the unique results being studied provide the basis for Jim Collins's *Good to Great: Why Some Companies Make the Leap...and Others Don't*. It's good. Maybe even great.

Collins calls this research project and resultant work a prequel to his previous best-seller, *Built to Last*, noting that the lessons presented here feed into the theories of the first book.

With a team of 20 graduate students, Collins set out to answer an intriguing question: Can a good company become great and, if so, how? The research team spent six months identifying 11 companies out of 1,435 that made this unique transition from good to great. And the insights shared in *Good to Great* may not be what you'd expect in this era of business gurus.

The most surprising finding of the study concerns leadership. Contrary to the popular trend, bringing in a flashy new leader to shake things up rarely transforms a company from good to great. Rather, it seems that the self-effacing, humble leader with a strong commitment to the company and a passion for the business personifies what Collins calls a Level 5 leader. And such a leader is instrumental in transforming a company from good to great.



Good to Great: Why Some Companies Make the Leap...and Others Don't
HarperCollins, 2001

In fact, Collins and his team determined that getting the right people in the right positions is of utmost importance in such a transition. Collins calls it "getting the right people on the bus, the wrong people off the bus, and getting everyone in the right seats." They also found that these leaders confronted the brutal facts of their respective situations and maintained an unwavering faith that they would prevail in the end.

Leadership of good-to-great companies based decisions on what Collins and his team call a "hedgehog concept." It sounds silly out of context, but Collins is trying to drive home the idea of focusing on what is essential and ignoring what is not. (I think Collins selected an unfortunate term, but he provides an interesting explanation.) The idea is that the good-to-great leaders devised hedgehog concepts that were focused and insightful and that answer three questions, which the research team calls the three circles: 1. At what you can be the best in the world? 2. What drives your economic engine? and 3. About what are you deeply passionate?

Collins effectively dispels the myths of corporate change initiation. His research concludes that a disciplined course of action carried out thoughtfully by the right people in the right positions can lead to greatness. The ideas make for an enaging read. —*Diana Ascher*