FPA's Rodriguez Flouts 'Small Mind' Investor Rules to Top Funds

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By Charles Stein

Dec. 4 (Bloomberg) -- **Robert Rodriguez** ignores most rules of the mutual-fund industry, an approach that's helped him beat all rival managers over the past 25 years.

Rodriguez, who runs the $1.1 billion **FPA Capital Fund**, puts most of his money into two or three industries at a time, has stopped taking new investors for 12 of the past 14 years and has held as much as 46 percent of assets in cash. His 15 percent average annual return since 1984 is best among diversified U.S. equity funds, according to Morningstar Inc.

"His approach is at odds with how the mutual-fund industry runs its money," **Christopher Davis**, an analyst with Chicago- based **Morningstar**, said in a telephone interview.

The 60-year-old says he looks for companies with a market value of $1 billion to $4 billion that sell at what he considers bargain prices, and holds cash if he can't find enough stocks that meet his criteria. That strategy helped Rodriguez limit losses from the technology stock bubble in 2000 and the credit crisis that started in 2007.

Since 1998, the fund has had an average cash position of about 30 percent. Stock mutual funds hold an average of 4.3 percent.

"People told me, 'You are not paid to manage cash,' " he said in a telephone interview from his home in Zephyr Cove, Nevada, where he moved three years ago from California. "I am paid to exercise my best judgment. If you don't like it, you can leave."

'You Can Leave'

Rodriguez, who races sports cars as a hobby, beat the 11 percent return by the Standard & Poor's 500 Index over the past 25 years, in part because he managed to steer clear of the two biggest crises during that period, which encompasses the presidencies of **Ronald Reagan**, George H.W. Bush, **Bill Clinton**, **George W. Bush**, and **Barack Obama**.

In an April 2000 letter to shareholders, Rodriguez described Internet stocks as highly speculative and predicted that many of them would go out of business. Seven years later, in a June 2007 speech, he explained that he was avoiding financial stocks because "a bubble of massive proportions has been created in the housing market."

The fund didn't entirely avoid losses from the credit crisis because of its investments in energy stocks, which Rodriguez says were made with a long-term horizon. FPA Capital Fund also invested in two companies, Carmel, Indiana-based insurer **Conseco Inc.** and **Circuit City Stores Inc.**, a Richmond, Virginia-based retailer, both of which later filed for bankruptcy, according to shareholder letters.

'Not Perfect'

"He's not perfect," said **Russel Kinnel**, director of mutual fund research at Morningstar.

The fund underperformed the S&P 500 Index in 2006 and 2007 and from 1997 through 1999, Bloomberg data show. It gained 49 percent this year through Dec. 2.

Rodriguez's preference for cash prompted investors to withdraw $772 million from the fund between Dec. 31, 2006 and March 31, 2009, he wrote in an April letter to shareholders.

Mutual funds that build cash are making allocation decisions better left in the hands of individual investors, said

Stuart Ritter, a financial planner with Baltimore-based **T. Rowe Price Group Inc**, a rival fund manager.

"Someone who holds too much cash can throw off your whole portfolio," Ritter said in a telephone interview. In addition, lack of diversification can increase the risk for investors to suffer losses, Ritter said.

'Small Minds'

The fund had more than 40 percent of its assets in energy stocks at the end of September, according to a November letter to shareholders. Rodriguez told shareholders in the letter that three industries often represent more than 50 percent of the fund's assets.

As a student at the University of Southern California, where he earned a bachelor's degree and a master's of business administration, Rodriguez said he heard **Charles Munger**, now vice chairman of Omaha, Nebraska-based **Berkshire Hathaway Inc.**, belittle the importance of holding a diversified portfolio.

"He called diversification the hobgoblin of small minds with little confidence," Rodriguez said.

Rodriguez has criticized rival fund managers for selling products based on marketing considerations instead of investment opportunities. Rather than attract more money than he's comfortable investing, Rodriguez said he keeps the fund closed to new investors. Morningstar data show that 6.5 percent of stock mutual funds are currently closed.

Greenspan, Bernanke

Rodriguez says he hasn't bought a single stock since March, anticipating that equity markets may take as long as a decade to reach the previous highs. Economic growth will remain below average for the foreseeable future, he forecasts, a view whose proponents include Pacific Investment Management Co. Chief Executive Officer **Mohamed El-Erian**.

In newsletters and speeches, Rodriguez has criticized former Federal Reserve Chairman **Alan Greenspan** and current Chairman **Ben Bernanke** for failing to recognize the bubble in housing. He has also been critical of Congress and the Obama administration for expanding the federal budget deficit.

FPA Capital Fund will hold stocks for extended periods if they continue to meet valuation targets. The fund in 2008 sold **Ross Stores Inc**., a Pleasanton, California-based retailer that had been in the portfolio for 15 years. It bought most of the stock for between $1 and $2 a share, Rodriguez estimated, and sold them for about $40.

25-Year Streak

Rodriguez is co-manager of a bond fund, the $3.8 billion **FPA New Income Fund**. Christopher Davis of Morningstar said Rodriguez's fixed-income experience helped his stock fund by giving him greater insight into the troubles in the mortgage market and the financial system.

The bond fund has not lost money in any year since Rodriguez took it over in 1984, Morningstar data show.

"People hear the rants, but beyond the rants he is a careful investor," said Kinnel of Morningstar.

Rodriguez will begin a one-year sabbatical in January that had been planned since 2003. FPA Capital will be run by Dennis Bryan and **Rikard Ekstrand** during that period, both of whom are portfolio managers on the fund. Rodriguez said he will keep his money in FPA's funds.

In his year off, Rodriguez plans to travel and read books, including "Democracy in America" by Alexis de Tocqueville and "Roughing It" by **Mark Twain**. He also will devote more time to his hobby: driving Porsches at 155 miles per hour.

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