

Navellier Mid Cap Growth NPMDX

Analyst Report
by Todd Trubey

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Navellier Mid Cap Growth gets the job done.

When investing in a quantitative fund you want to be confident it can reliably top its rivals and benchmark index. After all, such computer-driven vehicles' gameplan is to gain and maintain enough of an informational advantage to drive superior results. A look at this fund's five-year returns on a rolling basis (where each month, one month drops off while one is added), shows that in 49 rolling five-year periods since its inception the fund has topped the average category rival 84% of the time, and the Russell Midcap Growth Index 96% of the time.

That degree of consistency is a bit surprising, but the success isn't given Navellier's diligence. Lead manager Michael Borgen and his colleagues constantly tweak their computer models to maintain their edge. They now have a stable of 100 fundamental datapoints, typically mixing about seven of the most predictive ones to select stocks. Borgen notes that such factors' effectiveness can change radically over time. For instance, Wall Street analysts' revisions have long been and continue to be predictive. But a similar factor, earnings surprises, was long useful but no longer is. The implication is that investors don't appreciate firms beating their own numbers, but do value the overall optimism of analysts.

Thus this fund, which will largely avoid or move heavily into specific sectors— can end up making moves similar to those savvy human stock-pickers make. For instance, the fund has been gradually paring back its retail stake this year but still holds firms targeting wealthier customers such as Coach COH and Nordstrom JWN—because they continue to thrive. That's just what some smart top-down strategists have done, because they expect energy prices to hurt retailers that target lower-income customers but not those with upper-crust clientele. And as it has before, the fund's buying tech stocks fairly heavily.

This fund may not often crush its rivals, but over the long haul it works well.

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Year	Total Return (%)	+/-Category
YTD	9.82	0.90
2005	—	—
2004	14.41	1.07
2003	31.31	-4.99
2002	-22.83	3.74

Data through 11-30-2005

Morningstar Rating
★★★

Kudos

Strong long-term record.

Fairly low volatility for a momentum fund.

Risks

While the fund's sector bets often work, the fund's relative returns suffer when they don't.

The compact portfolio could potentially create high volatility.

Strategy

This fund looks at recent history to find what fundamental qualities the market has recently prized, and then it seeks stocks with good recent risk/reward profiles that have those traits. Like most good quantitative shops, Navellier constantly adds to the list of fundamental qualities in its computer screens. There are now more than 100 of them. The shop usually finds that between four and eight are important at any one time. The fund typically holds between 35 and 65 stocks and will make sector bets.

Management

Michael Borgen has been with Navellier since 1995 when he joined as a quantitative research analyst. In July 2002 he was named portfolio manager for this fund. While short, his record as manager has been solid. He also works on continually upgrading the shop's quantitative computer models.

Inside Scoop

This rather aggressive momentum fund often follows its own path. Unlike some momentum funds, it will make significant moves in and out of specific sectors. Sometimes that works really well, but sometimes the fund looks out of whack. Over the long term, it has been solid.

Role in Portfolio

Supporting Player

The Navellier Mid Cap Growth Fund invests in mid cap growth stocks, please note that smaller and medium sized company stocks are more volatile and less liquid than larger more established company securities. This fund invests in mid-size companies, which increase the risk of greater price fluctuations.

An investor should consider the fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information about the investment company can be found in the fund's prospectus. To obtain a prospectus, please visit www.navellier.com. Please read the prospectus carefully before investing.

