

Transcript of my (Jeff DeMaso's) June 25th segment on the *Money Life with Chuck Jaffe* podcast. The full episode is available here:

<https://moneylifeshow.libsyn.com/horizons-ladner-is-more-concerned-about-the-next-six-weeks-than-six-months>

Chuck Jaffe: We are going *Off The News* now on *Money Life*. It's not necessarily big headline news for the rest of the world, but if you are an investor, we are digging into some news that came out on June the 18th from Valley Forge, Pennsylvania, the home of the Vanguard Group, where they announced that two legendary mutual funds, one of which has been closed for 20 years, one for 15 years, are now available for new accounts and additional purchases. Yeah, Vanguard PRIMECAP and Vanguard PRIMECAP Core have now reopened.

And as somebody who has been writing and talking about the fund industry for more than 30 years—So, yeah, I was doing it before these funds closed—I can tell you that it's always interesting when funds reopen, and you got to try to dig in to figure out what it means. Just because a legendary fund is reopened, do you want to go there? Might you want to go there?

Well, there's nobody better to talk about that when it comes to Vanguard funds than Jeffrey DeMaso. He's the editor of The Independent Vanguard Adviser, but you can find him online at Independent Vanguard Advisor—Er, at the end there—independentvanguardadviser.com

By the way, you can also loop to him through LinkedIn. We've got his LinkedIn link on our guest page, where you can find him there. Jeffrey DeMaso, welcome back to *Money Life*.

Jeff DeMaso: Hey, Chuck, thanks for having me back.

Jaffe: Is this big news for investors, or is this only big news for Vanguard geeks and people like me who watch the fund industry and go, "Really, the funds reopening after 20 years?"

DeMaso: No, I think it's big news for anyone who's interested in active management and interested in, arguably, one of the best active managers out there.

Jaffe: What we're saying is this fund is reopening, and it potentially is worth buying. But why is this fund reopening? I mean, they haven't felt a need to do this for a long, long time.

DeMaso: Yeah, it's been 20 years, as you said at the start, since Vanguard PRIMECAP was open to new investors—let me just give you a little bit of history on the fund before we talk about why it's reopening, just to give us a little context on why we're talking about it right.

PRIMECAP's been around for over 39 years—it'll hit its 40th anniversary in November of this year. And, at least as of the end of the year, when I ran the numbers, they had outperformed by 2% per year. And over 40 years, that certainly adds up.

Or another way to look at it is that PRIMECAP the fund, since its inception—there have been 133 diversified, diversified, U.S. stock funds that have a track record as long as they do. So, they have to be around for this nearly four-decade period, and PRIMECAP came in number three, behind only two Fidelity funds, Fidelity Growth Company and Fidelity Contrafund—if you are interested.

So, point being is they've got a very, very long track record among the best in the business. So okay, let's get back to your question. Why are they reopening today or the other day last week?

We can point to a few things. One is that, frankly, the fund has seen outflows for years. And when you're closed and limited access to the fund, it's very hard to get inflows for years. But it's also the knowledge that we've been fighting against a period for active managers where money has been flowing to ETFs and index funds. So that's point one, the fund has seen outflows for a long time.

Point two would be, frankly, the PRIMECAP strategy has been a little bit out of favor. They are growth investors, but tend to buy with an eye towards valuation and the price they are paying. So they have not been chasing the Magnificent Seven—if that's what you want to call it. Although that doesn't mean they haven't owned them at all. Know that they've owned NVIDIA for well over a decade, so they do have some stock-picking chops, you know, on the team there.

And then the last reason to think about why reopening is to just recognize that the market has grown in size, liquidity has improved.

This isn't something that Vanguard is doing on their own. Vanguard and PRIMECAP have worked closely together, deciding whether to reopen or not, and I'd also note that Vanguard and PRIMECAP did a little bit of research on this in January. So, at the beginning of the year, they were surveying investors and shareholders and asking, you know, if we reopened, would you add to your fund?

Given that information, they decided that they were able to reopen the fund. They had some capacity.

So again, they reopened PRIMECAP and also PRIMECAP Core. So, two of the three PRIMECAP-run funds at Vanguard—the other Capital Opportunity is still closed. So, they made a decision to open two of their three funds again.

To sum up, they've seen outflows; I think they've been a little bit out of favor, and managers may be seeing opportunity, and it's easier to be a buyer when you're getting inflows; and then three would be just recognizing that the market has grown, liquidity improved. They may be able to manage a little bit more than they just were managing.

Jaffe: Yeah. You know, it's also interesting when you talk about money flowing out, well, you got a fund that's this old, that's been closed this long, money's flowing out because you've got changes of generations. You do have that side where people are saying, Okay, do I still want active management? As a lot of folks have changed that way.

When it comes to this fund, who does this fund fit for? Because, okay, it's a great fund, and it's reopening, and you have reason to believe that current management, which has not been there for the whole 40 years, can continue to do well, but it still has to be a good fit for your portfolio. I mean, you think great funds are a fit for everybody, but that's not entirely true.

DeMaso: No, it's not entirely true. Even if this is a fund that goes on to outperform over the next 10, 15, 20 years, there will be periods like today, where they have underperformed. So, when it comes to any active strategy you are going to buy, you need to do your homework. You need to understand how the managers pick stocks, how they build a portfolio, what they're trying to do. And you should recognize that they're not always going to outperform year in, year out. That just doesn't happen.

So, yeah, look, I think this is a fund that could fit as a growth part of many investors' portfolios. But that doesn't mean that everyone should go out and buy it. Again, you've got to be patient and disciplined when it comes to buying and partnering with active managers.

Jaffe: Does it also mean that maybe if you're unhappy with the kind of core growth fund that you've had, and you're wondering if you should make a change, like this

becomes your default? Okay, let's take a look at what I've had. Let's take a look at what's now available to me, and maybe that can give me the impetus to move.

DeMaso: Well, I'd always caution you to take a look at taxes. You know, in a situation like that, even if you're a little disappointed with your growth fund, we're in a bull market, and if you've owned it for a long time, you may be sitting on some games. So, if it's a taxable account, keep an eye on that side of the equation.

But yes, absolutely. I think this is an opportunity to partner with some great managers. Again, as I said, they're a little bit out of favor, but we've seen this over there for decades-long history; they don't outperform every year, and often buying or adding to a position when it's out of favor tends to work out over time.

I guess the only other point I'd add is, you know, these two funds are opening, but the PRIMECAP team also manages three other funds, the PRIMECAP Odyssey funds. The three PRIMECAP Odyssey funds mirror the Vanguard funds. They're slightly more expensive, but they tend to have a bit less in assets, and they've all been open for a couple of years now.

Jaffe: And so we can use that track record as well as another way to prove to yourself that these funds might be worth it for you—really interesting stuff. Again, you know, there's the fund industry has a track record at times with things reopen. Wow, what a gift. And at other times, yeah, they're reopening because they need your money more than you need their management. But Vanguard, PRIMECAP and PRIMECAP Core, two classic funds back on the market for investors. J

effrey DeMaso, thanks so much for joining me to talk about it.

DeMaso: Thanks for having me, Chuck. It's an exciting time.

Jaffe: Jeffrey DeMaso is editor at The Independent Vanguard Adviser. Independent Vanguard advisor.com is the website for more information on him and his newsletter.