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TIP SHEET

Touchstone's Mid Cap Goes Where The Growth Is

By CURT THACKER

KANSAS CITY (Dow Jones)—William Muggia, portfolio manager of Touchstone Mid Cap Growth Fund (TEGAX), looks to capitalize on the overlooked.

Even in depressed sectors of the economy, he said nuggets of value can be found in companies that have pricing power, can capture market share or operate in industries that have recently changed.

Another key to the success of the fund is going where the growth is. Muggia said growth now is in energy and industrials, whereas in the 1990s it came from the technology, healthcare, consumer and financial sectors.

"We made the transition a few years ago where we saw much better opportunity in companies that can sell to the emerging markets," he said. "In the resurgence after the meltdown recently in U.S. industrials, we have big sector weights in tech, materials, industrials and energy."

Muggia's introduction to the equity markets came at the age of 12 after inheriting what he described as a couple of thousand dollars. Some early success, which he said occurred "for probably all the wrong reasons," got him hooked on the business.

He started running the Touchstone fund with a group of analysts in 1994. The mid-cap fund had total assets of \$843 million as of Dec. 21, 2010, investing in stocks of companies generally with a market capitalization of \$2 billion to \$10 billion.

Its average annual returns since inception is 11.48%, compared with the Russell Midcap Growth Index at 8.28%, according to Morningstar.

Courtney Goethals Dobrow, a fund analyst with Morningstar, described Touchstone Mid Cap Growth Fund as "a really solid fund." The managers in place have run the fund since 2001, and over that time it has outperformed peer funds and the Russell Mid Cap Growth Index many times, she said.

"It has also been less volatile than the category norm, so it has given a better overall return," Dobrow said.

As for current holdings, Muggia said the fund likes companies in oil and coal such as National Oilwell Varco Inc. (NOV), and Massey Energy Co. (MEE), while steering clear of natural gas producers. He sees gas remaining plentiful and relatively inexpensive for years to come.

"We own a lot of oil service names. The wells are much deeper, much more

complex, the easy stuff has been found and there are actually more dollars being spent per well right now," Muggia said.

The outlook for oil-services company National Oilwell Varco, for example, is bright as a new cycle of rig construction begins, fueled by easier access to credit and confidence that oil prices will remain above \$75 a barrel for some time. As for coal, Muggia favors producer Massey Energy because of its reserves of metallurgical coal used in steel making.

"Metallurgical coal is in short supply world wide and we expect the market to not only remain tight but to get tighter in 2011," he said.

Muggia also likes the idea of Massey merging with Alpha Natural Resources Inc. (ANR), creating what would likely be the world's largest producer of metallurgical coal. A possible deal has been rumored, but nothing has been announced.

Outside of the energy sector, Muggia favors Autodesk Inc. (ADSK), a maker of 3D-design, engineering and entertainment software. The company "has a growing top line and dominant market lines—one of the fast growers," he said.

(Curt Thacker covers the livestock markets and meat industry for Dow Jones