

Patron Training: Morningstar's Screeners



Agenda

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Accessing Morningstar's Screeners

Direction: Speaker will review with patrons how to access Morningstar.com Library Edition via the library's site.

Once in Morningstar.com Library Edition, you can access the Screeners two ways:

1. Via the Screeners tab
2. Via the link under the column labeled "Screeners"

Direction: Click Morningstar Fund Screen.

Why Screen?

This is the place you would go to narrow down the universe of funds or stocks based on your investing criteria. Morningstar recognizes that every person has different investing needs. Some want to screen returns, some will seek out experienced mutual fund managers, others will be interested in what Morningstar analysts have to say. Morningstar allows you to screen based on hundreds of different criteria so you can find results that best suit your needs.

The Screeners are also huge time-savers for you. There is nothing worse than researching a security only to find out that some aspect does not fit your needs. Imagine if you examine pages of data on a particular fund only to find out that the minimum initial purchase is too high for you or that the fund is no longer open to new investors. The Screeners tool can weed out all these securities so when you sit down to read a report, you know that the security fits with your investing style.

Preset Screens

I would like to direct your attention to the right side of the page where there is a link labeled Morningstar Screens.

Morningstar realizes that investors sometimes need help identifying what their needs are. Morningstar Screens are great for beginners because they help you define what criteria are important even if you are unsure of your needs.

By clicking Morningstar Screens, you can view a sample screen. You can see each parameter that goes into to making that screen. You may also find that a Morningstar Screen suits the kind of securities that you are looking for.

Now lets go ahead and open up one of the Morningstar Screens.

Direction: Click Morningstar Screens; scroll down and choose Portfolio Anchors. Make sure "View Search Criteria" is selected, and click Open.

Portfolio Anchors looks for large-blend funds that have proven themselves over the long haul. The screen also emphasizes funds with experienced management, low expenses, and top-half returns that could serve as a rock-solid core of an investor's portfolio.

As we can see, there are six parameters that go into this particular screen:

1. Fund Category

The vertical axis of the Style Box defines three size categories, or capitalization bands: small, mid-size, and large. The horizontal axis defines three style categories.

2. Distinct Portfolio Only

Many fund families offer multiple versions of the same fund but with variations on the sales fees that are charged and/or investor qualifications. Selecting Distinct Portfolio Only removes all but one of these options so that you won't have several share classes of the same offering cluttering your screen. Note that Morningstar normally designates the oldest share class as the distinct portfolio, and that is often (but not always) the A share class.

3. Fund Manager Tenure

This represents the number of years that the current managers have held their positions at the fund. For funds with more than one manager, the average tenure is shown. If there is only one manager and he/she has been at the fund for less than six months (and we have biographical information available), a dash will appear. If the fund designates the manager as a management team and does not disclose to Morningstar the names of the portfolio manager or co-portfolio managers, Manager Tenure will appear as a dash.

4. Expense Ratio

The annual expense ratio, taken from the fund's annual report, expresses the percentage of assets deducted each fiscal year for fund expenses, including 12b-1 fees, management fees, administrative fees, operating costs, and all other asset-based costs incurred by the fund. Portfolio transaction fees, or brokerage costs, as well as initial or deferred sales charges are not included in the expense ratio. The expense ratio, which is deducted from the fund's average net assets, is accrued on a daily basis.

5. 5 Yr Return % Rank Category

This is the fund's total-return percentile rank relative to all funds that have the same Morningstar category. The percentile rank is listed for the following time periods: four weeks, three months, one year, three years, five years, and 10 years. The highest (or most favorable) percentile rank is 1, and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1.

6. Minimum Initial Purchase

Minimum Initial Purchase indicates the smallest investment amount a fund will accept to establish a new account.

These are some important criteria to consider when you're looking for a fund to serve as a core to your portfolio.

Creating Your Own Fund Screen

Let's assume that you do, in fact, have particular criteria in mind and that you don't need a preset screen.

Direction: Click Start Over to create a new screen. Follow and explain directions below for creating one.

Let's say you want to see only highly rated funds. Using the drop-down box, choose Morningstar Rating and, in the window that pops up, select Four Stars from the Value menu. This will narrow the search to all 4- and 5-star funds.

Let's also say that you only want experienced managers. Go back to the drop-down box and select Management. In the new window, manipulate the drop-down menu to create the specific search criteria Fund Manager tenure \geq 10 years. This will narrow the search to managers who have been at the same fund for 10 or more years.

You don't have that much money to invest right now, so you only want funds that will let you invest with \$2,500 or less. Select Minimum Purchase and use the new window to enter a value of \$2,500. This screen ensures that funds with initial purchases higher than \$2,500 will be thrown out.

And you don't want to pay a lot for a mutual fund, so cap the fund's expense ratio at 1% by selecting Fees & Expenses from the drop-down menu. The expense ratio is useful because it shows the actual amount that a fund takes out of its assets each year to cover its expenses.

Because you're going to want to read the opinion of a Morningstar analyst, you'll want to select Morningstar Analysis Available. This will ensure that every fund that passes the screen will have an analyst report.

As we can see, we have narrowed down a universe of 17,000 funds to a much more manageable number.

Edit Your Screen

Now I want to show you how versatile this area of Morningstar.com Library Edition is.

Let's change the fund manager tenure from 10 years to at least 15 years. This does not mean we have to create a whole new screen. We do this by clicking on the "change" link on the fund manager tenure line. Notice the original window will launch and we can just change the years from 10 to 15. Now we have narrowed the universe even further.

View Your Results

Finally we can click on the big "play" button at the bottom of the page and get a list of the funds that pass the screen we just created.

Direction: Click the "play" link at the bottom of the page to view results.

At this point, if you would like to keep your results, you should print them.

Once you're on the results page, you can customize what data you see for each entry and rank the data fields as you so choose.

Direction: Follow the text below as you speak it.

The default is to see the funds ranked alphabetically. But let's say you wanted to rank the funds from highest

star rating to lowest star rating. You simply need to click the Morningstar Rating column and your data will be re-ordered. Click again and you'll see your results ranked from lowest star rating to highest star rating.

Moreover, you're not restricted to the view that you see initially. You can choose from a handful of different views to display based on the data that's most important to you. Simply click on the drop-down box to see the variety of different views you can choose from.

Once you have your short list of funds that meet your criteria, you can easily investigate more about individual funds. Simply click on the Fund's name in the results area and you'll be taken to the Morningstar Report for that fund.

Creating Your Own Stock Screen

You can also use the Screeners to find stocks that meet your criteria. Let's create a stock screen.

Direction: Return to the Screeners page and click on stocks.

We're now back on the Screeners page and we'll select "Stocks."

Say you want companies that Morningstar thinks are good buys right now. You therefore want to screen for stocks with Morningstar ratings ≥ 4 stars.

However, you also want stocks that are not overpriced relative to their earnings. You're therefore looking for stocks with price/earnings ratios below 25.

You want to be sure that you can read what a Morningstar analyst has to say about the stock, so you choose Morningstar Analysis = available.

Finally, you're looking for companies that are entrenched in their industries. In other words, you want companies that have created huge barriers to entry in their particular line of business. You therefore want companies with wide economic moats. An economic moat refers to how likely a company is to keep competitors at bay for an extended period.

Click the "play" button at the bottom of the page to view the results of this search.

Direction: Click and view results.

As with the Fund Screener, the Stock Screener also allows you to rank the results by whatever piece of data you find most important. You can also select from a handful of different views via the drop-down box. Finally, once you have the view set up and ranked to your liking, be sure to print the results. Or click on an individual stock's name to view the Stock Report for that company.