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Mark Hulbert

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The top 5 Fidelity sector strategies of 2013

Commentary: What are last year's best advisers buying now?

By Mark Hulbert, MarketWatch

Bloomberg

CHAPEL HILL, N.C. (MarketWatch) — Sector rotation strategies are playing a hot hand these days, and the hottest are those that focus on Fidelity's sector funds.

Those are the conclusions that emerge from a review of the 2013 performance rankings of the more than 500 portfolios monitored by the Hulbert Financial Digest. Of the 10 mutual fund portfolios that made the most money last year, nine focus on sector rotation. And seven of those nine focus on Fidelity's sector funds in particular.

That's an impressive sweep.

The average 2013 gain of the five best Fidelity strategies was more than 41%, compared to a 33.1% dividend-adjusted return for the Wilshire 5000 index (MFD:WINDX) . The advisers behind these strategies are, along with their HFD-calculated returns, are:

- AI Stock Forecast, edited by Michael Henry. This letter's "AI Fidelity Fund" portfolio gained 38.9% in 2013.
- AlphaProfit Sector Investors' Newsletter, edited by Sam Subramanian. This letter's "Fidelity Focus" and "Fidelity Core" portfolios gained an average of 46% in 2013.
- Fidelity Independent Advisor Sector Momentum Tracker, edited by Donald Dion. His "Fidelity Sector Momentum" portfolio gained 38.8% in 2013.
- Fidelity Monitor & Insight, edited by Jack Bowers. His "Select Model" portfolio gained 37.5% last year.
- Fidelity Sector Investor, edited by Jim Lowell. His "FSI Technology-Plus" portfolio gained 46.1% in 2013.

With returns so closely clustered in the 38% to 46% range, you might think that these advisers each recommended more or less the same basket of funds. But you would be wrong. In fact, more often than not, each of these advisers has tended to recommend funds that are not recommended by any other of the top five sector strategies.

That's amazing, since there are only 44 actively managed Fidelity sector funds and these advisers' model portfolios hold an average of between five and 10 funds each.

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This suggests that there is more than one way of playing the sector rotation game, which is good news. If there were only one profitable sector strategy, it would quickly become so overused as to stop working.

This is even true among those advisers who recommend sectors based on their relative strength or momentum. Because there are so many ways of defining these characteristics, two different sector momentum strategies will often end up recommending two different Fidelity sector funds.

Another way of appreciating the divergent recommendations of these top performing advisers is this: Of the 44 actively managed sector funds that Fidelity currently offers, no fewer than 22 are recommended by at least one of these top five advisers. That's one of every two, on average, which hardly seems very selective on the advisers' part.

Furthermore, there is little agreement among the top five. Currently, there is just one fund that is recommended by even three of them: Fidelity Select Software & Computer Services (MFD:FSCSX) . And there are just nine more that are recommended by two of the five. That means that more than half of the funds that appear in any of these top five advisers' portfolios appear in just one of them.

The nine Select funds currently recommended by two of the top five advisers are:

—Air Transportation (MFD:FSAIX)

—Brokerage & Investment Management (MFD:FSLBX)

—Consumer Discretionary (MFD:FSCPX)

—Health Care (MFD:FSPHX)

—IT Services (MFD:FBSOX)

—Industrials (MFD:FCYIX)

—Leisure & Entertainment (MFD:FDLSX)

—Retailing (MFD:FSRPX)

—Transportation (MFD:FSRFX)

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