Growth investing may still have a spot in portfolios

Sector has been battered, but some funds remain unbowed

If you read academic investment research, growth investors belong somewhere between people who believe the Earth is flat and those who get their stock tips from talking dogs.

Nevertheless, from time to time — actually, for long periods of time — growth investing works quite well. We may be entering one of those periods. The question is whether the gains from growth stocks are worth the pain when growth goes sour.

Investing
By John Waggoner

Growth investing holds that a company's stock price closely follows its growth in earnings. A company with above-average earnings should see its stock price grow faster than average.

Naturally, this is not as easy as it sounds. The stock market looks forward, not backward. Successful growth investors have to forecast corporate earnings growth, and, as Yogi Berra observed, it's tough to make predictions, especially about the future.

Nevertheless, growth investing has a long and storied history.

T. Rowe Price, founder of the Baltimore-based mutual fund company that bears his name, was one of the first big advocates of growth investing. So is James Stowers, founder of the American Century funds in Kansas City, Mo.

Peter Lynch, former manager of Fidelity Magellan fund, was one of the most spectacularly successful growth investors, turning in a 2,475% gain over 13 years, vs. 508% for the Standard & Poor's 500-stock index.

And growth had a long run. The Lipper Large-Company Growth Fund index soared 3,072% the 20 years ended Dec. 31, 1999, vs. 2,579% for the S&P 500. Value funds, which look for beaten-up stocks of companies that Wall Street hates, gained 1,944%.

But the past 10 years have been brutal for growth investors. The average large-company growth fund has plunged 32% the past decade, vs. a 1% loss for large-cap value funds.

Not surprisingly, growth has been shunned by investors, who have yanked an estimated $185 billion from large-cap growth funds the past decade, more than triple the amount they've pulled from large-company value funds.

And many noted investing experts, from Warren Buffett to University of Pennsylvania Wharton School economist Jeremy Siegel, maintain that value investing is the best long-term investment strategy.

Nevertheless, growth funds have taken the lead this year — and, in fact, for the past five years. Can you make a case that growth will continue to lead for the next few years?

Robert Millen, portfolio manager of the Jensen fund, is a growth manager worth listening to: The fund is in the top 5% of all large-company growth funds the past decade. Millen notes that when corporate earnings growth is rare, investors bid up stocks of the few companies that post exceptional growth. He thinks the nation is in for a slow economic recovery, which means that companies with high earnings growth will be rare indeed.

Millen thinks the recovery will be slow because the nation's households and corporations will be focused on paying down debt, rather than spending. But you can add two other factors into the argument for sluggish economic growth:

Investment growth

Top-performing midcap growth funds the past 5 years:

Fund, ticker	Total return[1] 2009	5 yrs.
American Century Heritage Fund Investor, TWHIX	24.0%	**61.6%**
Fairholme fund, FAIRX	28.6%	**53.6%**
JennDry Jennison Mid-Cap Growth fund A, PEEAX	25.1%	**46.3%**
Morgan Stanley Instit. Mid-Cap Growth Portfolio; I, MPEGX	43.3%	**45.6%**
Hennessy Focus 30 fund, HFTFX	16.5%	**45.0%**
Average midcap growth fund	**25.6%**	**18.2%**

1 — dividends, gains reinvested through Aug. 26 Source: Lipper

▸ **Interest rates.** At the moment, the Federal Reserve is keeping its key fed funds rate near zero, which means that there's really only one direction for short-term rates: up. The government's massive borrowing could also push up long-term interest rates.

▸ **Taxes.** Current income tax rates are low, and federal deficits are rising. The current maximum tax bracket is 35%, down from 91% in 1950 and 50% in 1985. Although higher taxes would help pay off the deficit, they would also create a drag on economic growth.

Millen likes big, quality growth companies such as Colgate-Palmolive and Emerson Electric, in part because they have good exposure to rapidly growing global economies, such as China.

Lynch, long retired from fund management, says that growth works best in small and midsize companies, because they can grow for longer periods of time. And it's much harder for a mature company to grow its earnings by 25% than a midsize one.

"I'd rather buy in the second inning and sell in the sixth," Lynch says.

If you buy Lynch's logic, then a midcap growth fund is probably the best place to be. The top funds are in the chart.

But bear in mind that growth funds are just one style of investing. The people who get hurt the worst in a downturn are the ones who put all their faith in one theory of investing.

John Waggoner's column appears Fridays. E-mail: jwaggoner@usatoday.com. Follow him on Twitter at www.twitter.com/johnwaggoner.

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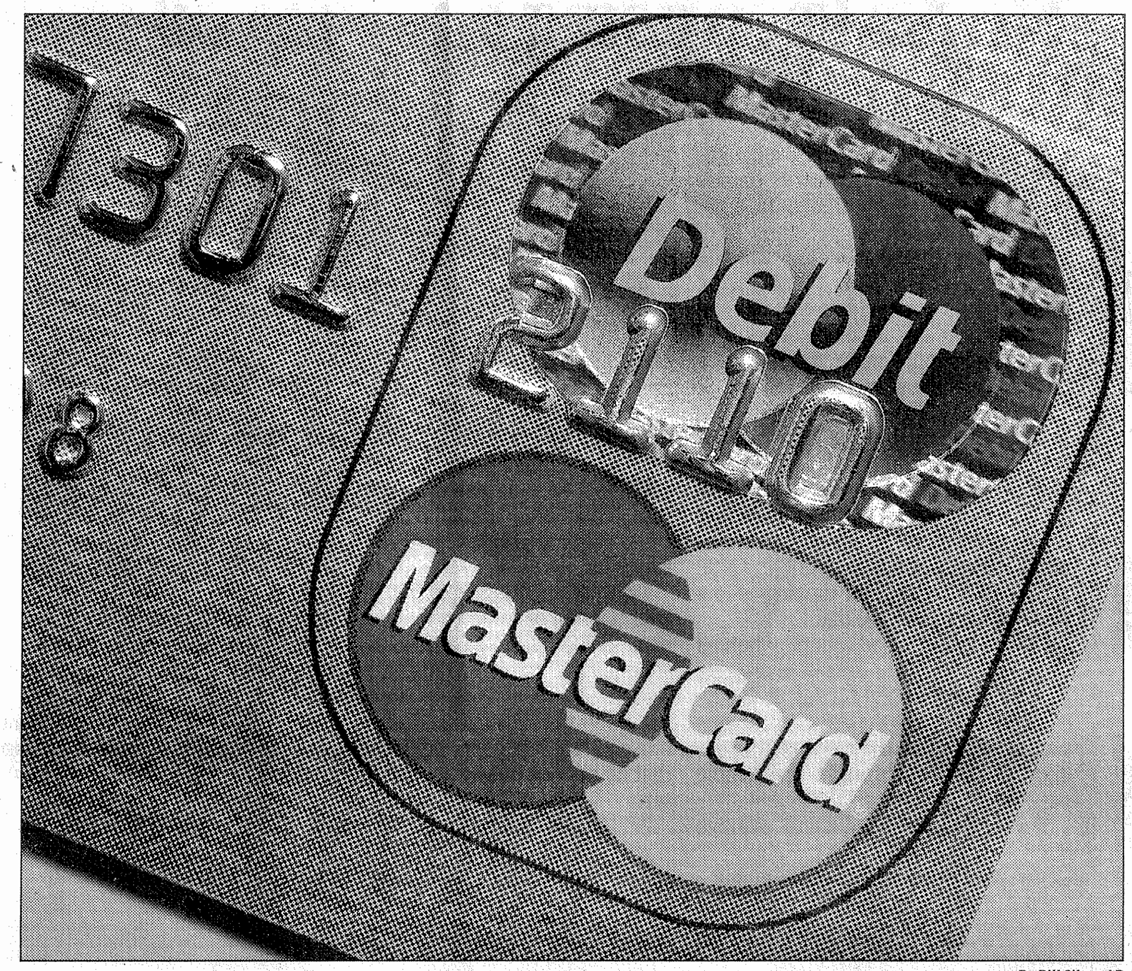

By Bill Sikes, AP

Debit or credit? Let how you spend decide

Each payment method has pluses, minuses

By Kathryn Canavan
Special for USA TODAY

Last year, debit card use surpassed credit card use for the first time in history: Americans made 28.4 billion debit purchases compared with 21 billion credit card purchases, according to payment systems newsletter *The Nilson Report.*

It happened, industry watchers say, because of tighter credit, recession-weary and strapped consumers, wider acceptance of debit cards for small purchases, and a burgeoning youth market that prefers paying with debit cards.

The typical American household carries four credit or debit cards. Which should be in your wallet, and for what should each card be used?

Brian Riley, research director for the TowerGroup, says consumers should pick the card that's the best fit for their specific needs: convenience, low interest, fraud protection, rewards or even as a help in taming your inner spendthrift.

First step, though: Consider cash for the purchase. Cash is the simplest transaction and comes with no strings, fees or delayed costs.

But if you need to use a card, know what costs you might face. Read the fine print in the notices you receive in the mail, and pay attention to statements and accounts.

Debit card pros and cons

Some considerations when using a debit card:

▸ **Make sure the funds are there.** A $6 sandwich can wind up costing $46 if you don't realize your checking account is flat-lining. Most merchants no longer reject a card if you have an inadequate balance; instead, you incur a hefty overdraft fee.

For example, Bank of America charges $35 for each overdraft above $5. Spokeswoman Anne Pace says fees will be capped after a consumer makes 10 overdrafts in a single day; overdrafts totaling less than $5 carry a smaller fee of $10. Wachovia charges $22 for the first overdraft in a 12-month period, then $35 for each subsequent one, says spokeswoman Richele Messick.

Messick suggests debit customers can avoid fees if they keep track of expenditures and link checking accounts to savings accounts, credit cards or lines of credit.

▸ **A security breach could mean trouble.** "I do think there are a lot of advantages to using debit cards as far as restraining spending, but there are a lot of risks of having debit card information stolen," says Ronald Mann, a Columbia University law professor who wrote *Charging Ahead: The Growth and Regulation of Payment Card Markets.*

"If there's a problem with a credit card, I simply put that card aside and use a different card until things get worked out. With debit, it's a much more serious event," Mann says.

Federal regulations limit liability for most consumers who are defrauded, but your debit account could be inaccessible for up to 10 business days after you report the fraud, says Gail Hillebrand, senior attorney for the non-profit Consumers Union's West Coast office.

If your credit card is lost or stolen, you typically won't be on the hook for more than $50. If an unauthorized user gets your card number but not your card, your liability in most cases is zilch. Both Visa and MasterCard promise "zero liability" and quick resolution for any fraud committed over their transaction networks, including debit transactions. Some merchants use other networks.

▸ **Usage fees.** Some banks and merchants charge fees of 50 cents or a $1 for debit card use at certain stores.

▸ **Account blocks.** Some merchants place blocks on debit accounts for purchases that aren't completed immediately: hotels, vehicle rentals and gasoline purchases, for example. That could keep you from using the debit card for other purchases.

▸ **Prepaid debit and gift cards.** Look out for fees — activation fees, non-use fees, ATM withdrawal fees, retail fees and reload fees. Also, many of these cards aren't covered by federal regulations.

What about credit cards?

The major difference between credit and debit cards — when the money actually leaves your bank — accounts for the positives and negatives. Some considerations:

▸ **They offer free short-term borrowing.** If you pay the balance in full on time, you get an interest-free loan.

▸ **Delayed payment raises the price paid.** The $6 burger that ballooned to $46 with the debit card overdraft? It could do the same — or worse — over time on a credit card if you don't pay the balance at month's end. High interest rates and late-payment penalties can add up.

▸ **Charges can be denied.** If you use your card to purchase something that didn't turn out the way you had hoped, you can dispute the charge. Some credit cards even carry insurance on purchased items.

"It's the best method for ordering online or ordering something that you can't evaluate until you bring it home and plug it in," says Consumers Union's Hillebrand.

▸ **They tempt you to buy more than you can afford.** "You have the best consumer protections on the payment method that creates the most risk to your household budget," Hillebrand says. "The biggest danger with credit is going into debt — and that's a danger that's highly overlooked."

▸ **Be careful with rewards.** Some credit card companies offer rewards programs to keep customers charging — although some issuers recently instituted fees for delinquent card holders who wish to remain eligible for rewards. Hillebrand advises consumers to rethink rewards.

"The basic problem with rewards programs is that they are designed to get us to use our credit cards more than we really should," she says. "If you're at any risk of not being able to pay it off at the end of the month, the rewards are not worth it. And, in this economy, we're all at risk."

By Matthew Staver, Bloomberg News

Shopping: Carletta King, right, pays for her purchases with a credit card at a J.C. Penney at the Town Center at Aurora mall in Aurora, Colo.

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Boeing: 787 will fly by end of year

Dreamliner news seen as reassuring

By Dan Reed
USA TODAY

Boeing said Thursday that its often-delayed 787 Dreamliner would take to the air for the first time before year's end and that the first delivery of planes to airlines would be late next year.

Airlines

Investors took that as a positive step after the company failed to deliver on senior management's assurances that the revolutionary jetliner would make its test flight by the end of June. They bid up Boeing's share price by 8.4% to $51.82.

Boeing also said it would take a $2.5 billion charge against earnings, or $2.21 a share, in the current quarter on the plane. That's a write-down of the value of the first three 787s used in testing.

The 787 is the first jetliner made mostly of high-tech composite materials rather than conventional aluminum and steel. The lightweight plane promises to lower airlines' operating costs as much as 20% compared with similar conventional jetliners.

The plane originally was to have had its maiden test flight two years ago. It has been delayed five times. The latest came when the company said it needed to reinforce an area on the side of the plane.

Boeing officials calmed concerns of some investors and analysts who had worried that delay costs and penalty payments for late delivery could turn the 787 into a money-loser for the first year or two after deliveries start.

James Bell, Boeing's CFO, told analysts and reporters that the company wouldn't lose money on the first copies of the 787 delivered. In July, he declined to offer assurances until the company determined how much the latest delay would cost.

Boeing CEO Jim McNerney acknowledged that "this program has had its challenges, and there still is work to be done." But he insisted that the "787 and the fundamental innovation it represents remains on track to become a true game-changer for our airline customers."

Despite delays, Boeing still has a record-shattering number of orders for 787s, more than 800, on its books.

Investors reacted positively because a period of uncertainty seems to have ended, said analyst Richard Aboulafia of The Teal Group in Fairfax, Va. "There's nothing quite so awful as just floating out there without any kind of plan," he said.

He added, however, that Boeing's track record on when the 787 would fly raises credibility questions.

"The last problem was something that emerged at the very last minute," Aboulafia said. "We don't know what will emerge at the last minute this next time around. That's the kind of credibility problem you have when you've just announced your sixth plan for testing and delivery of the same airplane."

Boeing's 787 customers also are chagrined by the delays. All Nippon Airways, the 787's launch customer, said in a statement that taking more time for testing to ensure safety was understandable and necessary. But, it said, "The length of this further delay is a source of great dismay, not to say frustration."

Virgin Atlantic, a customer that has demanded penalty payments, said in a statement that it was disappointed and was anxious to learn what the delay meant for delivery of its 787s.

No Test Drive

James R. Healey's Test Drive column will return next Friday.

Savers' Scoreboard

Highest CD yields this week[1]

Bank, phone	Yield
6-month	
UFBDirect.com, 888-580-0049	**1.80%**
Nexity Bank, 877-738-6391	**1.68%**
NewdominionDirect.com, 704-943-5700	**1.67%**
Ally Bank, 877-247-2559	**1.65%**
Imperial Capital Bank, 866-413-5626	**1.56%**
1-year	
NewdominionDirect.com, 704-943-5700	**2.05%**
UFBDirect.com, 888-580-0049	**2.05%**
Nexity Bank, 877-738-6391	**2.01%**
Ally Bank, 877-247-2559	**2.00%**
Discover Bank, 888-204-8970	**2.00%**
2-year	
Discover Bank, 888-204-8970	**2.35%**
NewdominionDirect.com, 704-943-5700	**2.35%**
Imperial Capital Bank, 866-413-5626	**2.31%**
Aurora Bank, FSB, 888-522-9295	**2.30%**
Ally Bank, 877-247-2559	**2.30%**
5-year	
iGObanking.com, 888-432-5890	**3.50%**
Discover Bank, 888-204-8970	**3.25%**
Ally Bank, 877-247-2559	**3.20%**
State Farm Bank, 877-734-2265	**3.15%**
Centennial Bank, 800-251-0705	**3.04%**

1 – As of Aug. 25 Source: Bankrate.com, North Palm Beach, Fla.

Highest taxable money fund yields

Fund, phone	Minimum investment	Yield[1]
W&R Advisors Cash Mgmt /A, 888-923-3355	$500	**0.85%**
Ivy Money Market Fund/A, 800-777-6472	$500	**0.71%**
USAA Money Market Fund, 800-531-8448	$3,000	**0.63%**
Flex-funds MM/Retail, 800-325-3539	$2,500	**0.44%**
Fidelity Select Money Market, 800-544-6666	$2,500	**0.38%**
Fidelity Cash Reserves, 800-544-6666	$2,500	**0.34%**
Fidelity Money Market Fd, 800-544-6666	$25,000	**0.33%**
Liquid Assets Fd/I Shares, 800-438-6375	$1,000	**0.28%**
Dreyfus MM Instr/Govt Secs, 800-782-6620	$2,500	**0.24%**
Marshall Prime MMF/Invstr, 800-236-3863	$1,000	**0.22%**

1 – current 7-day annualized yield
Source: Money Fund Report, 800-343-5413, www.imoneynet.com

Savers' Scoreboard appears Fridays