

Bragg fund earns 5-star rating

Steve Scruggs says his investment picks use a strategy similar to the best-selling sports book, *Moneyball*.

Just like author Michael Lewis writes about Billy Beane's development of the Oakland Athletics baseball roster by looking for undervalued players, Scruggs says he manages the Charlotte-based Queens Road Small Cap Value mutual fund with an eye for undervalued small companies.

The method works. The A's are often playoff contenders. And Queens Road recently received a five-star ranking, the highest rating, from independent research service Morningstar.

"We didn't invent the philosophy," Scruggs says. "We just looked at other folks who have had the most success doing this the longest."

The Queens Road Small Cap Value fund is one of two mutual funds run by Charlotte's Bragg Financial Advisors, a family-owned wealth management firm led by founder Frank Bragg's three sons and Scruggs, his son-in-law.

Scruggs believes the fund has received the recognition because of its strong performance through the recession. Because the fund is laser-focused on investing in small companies with good long-term value, it tends to outperform the markets in slow periods and lag some in a boom. The years 2008 and 2009 were some of the fund's best, compared to other funds and indexes. It lagged in 2005 and 2006. But Morningstar's research shows over the long term, it's a profitable strategy.

Since 2002, Queens Road has on average reported more than 11% annual returns for its investors, compared to 4.9% for the S&P 500 and 7.4% for

the Russell 2000 indexes. A Morningstar average of all small cap mutual funds averaged 7.7% returns annually over the same period.

"We don't try to be a five-star fund. There are often five-star funds that are hot and then blow up," Scruggs says. "We look at long-term value over a market cycle."

Scruggs launched the Queens Road Small Cap Value fund in 2002, investing in companies with less than \$2 billion in market capitalization. For about five years he limited ownership to Bragg Financial Advisors stakeholders and some key clients. Then after establishing a track record, the firm began to pitch the fund to interested clients. And about 18 months ago Bragg started soliciting outside financial advisers to sell the fund to their clients. About 25 advisers outside the Bragg office now offer the \$52 million fund to clients.

Benton Bragg, president of Bragg Financial Advisers, says the recent recognition and success of the fund reflects the philosophies that guide the entire firm: diligence, patience and discipline. But he doesn't intend to begin aggressively marketing the mutual fund side of the business. He says the firm believes conservative growth is still the best strategy. "It validates our disciplined approach," he says about the Morningstar rating. "We try to ignore the conventional wisdom you might see on TV. That usually leads you to what was hot last year."



BANK NOTES

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