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Fund Highlight: Roumell Opportunistic Value Fund

Reuben Gregg Brewer | March 10, 2011

Why do people climb mountains or run marathons? You can keep that line of questioning going by simply changing the activity. The question, then, is really, "Why do people do the things they do?" That's pretty big picture stuff and, on the surface, would have nothing to do with a mutual fund—except that it does.

James Roumell had created a nice business for himself. He started in the early 1990s as a broker for **Raymond James Financial** (RJF). Roumell was successful in this space and in the late 1990s changed from a broker to a Registered Investment Advisor (RIA). This is a material switch from making recommendations for commissions (broker model) to managing portfolios for a fee based on a percentage of the assets managed for a client (RIA model). It changes the dynamic of the client relationship materially.

Roumell built himself a good business in this space, spending material effort ensuring that his clients knew exactly what he was doing through lengthy and informative quarterly reports. His investment approach, discussed below, even earned him a nice quote from Martin Whitman of Third Avenue Funds fame—for a value investor, that's akin to Ted Williams giving someone a thumbs up after a good at bat (for historical reference, Ted Williams was one of the greatest hitters in baseball history, but also for many years hardly a fan or sports writer favorite).

So, with a successful business in place, why did Roumell recently launch **Roumell Opportunistic Value Fund** (A Shares: RAMVX; I Shares: RAMSX)? When I asked that question, the response from him was competitive spirits. That's probably true, but my perception was that Roumell was tired of playing ball in the shadows and wanted to jump to the "big leagues," to be seen on a larger stage. Sure, these things are encompassed by "competitive sprits," but that term is too refined for the fire in Roumell's belly.

As anyone who has read a prospectus knows, past success is no guarantee of future performance, so Roumell is taking a risk. Risk, however, is part and parcel with stepping into the so-called limelight. The excitement in his eyes, though, clearly shows that he is ready to give this new venture all he's got in an attempt to replicate his past successes on the larger mutual fund stage.

As with the shift from broker to RIA, there is a large difference between an RIA and a mutual fund. The RIA/client relationship can be very close, while a mutual fund/client relationship often boarders on estranged. True, there are mutual funds, such as the Hussman Funds and Baron Funds (I own mutual funds from both families), that spend a great deal of time and effort ensuring that they "speak" to their clients through frequent and in-depth shareholder communications. There are, however, many more funds that don't provide communication beyond what is legally required.

To his credit, Roumell is already on this more-information-is-better bandwagon with his quarterly updates. Still, how he handles "anonymous" money flows from mutual fund supermarkets remains to be seen—no matter how hard he tries to communicate his approach. Indeed, some investors simply follow the tides in and out of funds without ever doing any research into what they own. And for this fund, understanding what Roumell does and why is vital.

Roumell Opportunistic Value Fund is a go anywhere fund. If he sees value in stocks, he'll buy stocks. If he sees value in bonds, he'll buy bonds. If he doesn't see anything worth owning, he'll sit on the sidelines in cash. So this isn't a fund that can be cleanly placed into an asset category, but one that sits astride several categories under a broad heading of "value". Moreover, with a penchant for sitting in cash if he can't find "value" oriented investments, the fund could underperform in bull markets—"anonymous" money doesn't like that.

Of course, "value" isn't necessarily the best word either, which is why the word "Opportunistic" shows up in the fund's name. Roumell is actually looking for growth companies trading below his estimation of their values. The manager targets stocks, bonds, and other assets that value companies around 30% to 40% below what he sees as a fair value. He takes profits when the market closes the gap between his estimate and the market price.

When researching companies, Roumell and his team do a good deal of footwork. They get into a company's financials, visit with management and competitors, and examine what other researchers are saying about a company. Sometimes, he'll even hire outside contractors to do additional research—something like financial private detectives.

Visiting with the companies in which his fund may invest is an important source of information for Roumell and his team. This is because he values relationships, illustrated, interestingly, by his own penchant for lengthy quarterly reports. He wants to answer the questions, "Do we want to partner with this management team?" He is looking for honest, intelligent leaders who have integrity and command respect. This extends the similarity between Roumell and Ron Baron of The Baron Funds, despite the fact that the two live on different sides of the growth/value spectrum.

While digesting all of this information, Roumell adds in his economic outlook before making a decision. Although the big picture economy is part of the decision process, the manager, who clearly works from the bottom up, is definitely not a macro trader. However, the economic impact on investments and potential investments is a factor that he considers important since the realization of value can be materially affected by economic change.

Roumell Opportunistic Value Fund is most appropriate for investors who take the time to understand what they own and that believe in Roumell's investment approach. As noted above, the fund doesn't sit particularly well in any single asset category. Rather it purposely crosses between categories. This isn't a bad thing, however, if one takes a more flexible approach to asset allocation.

Take, for example, a portfolio that has 20% of its assets allocated to value stocks and 20% of its assets in bonds. Taking five percentage points from each category and putting that 10% of total assets into Roumell Opportunistic Value Fund would provide similar exposure. However, it would tilt the overall portfolio to where Roumell believes opportunity is presently available. This adds something of a flexible flare to what would otherwise be a more rigid portfolio.

Of course, investors could simply use this fund to fill their value needs and call it a day. Still, it is a new fund and while his previous performance is good, it wasn't achieved in a mutual fund. So, for most, it is probably too soon to take such a deep dive. That said, the fund is definitely worth further consideration by those who like to get to know their managers and are looking for a value oriented fund.

For those interested, the fund, which launched on December 31, 2010, is available through financial intermediaries, select fund supermarkets such as **Charles Schwab** (SCHW) (Individuals investing through supermarkets receive I shares), and directly through the fund company. The expense ratio, minimum investment, and load vary depending on the way in which shares are purchased and, in the case of the load, the amount invested. Currently, no-load I shares with a 1.23% expense ratio and front-end loaded A shares with a 1.48% expense ratio are available.

At the time of this article's writing, the author owned mutual funds from the Hussman and Baron fund families.

Important Mutual Fund Disclosures

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