

# American Funds Washington Mutual

R5 RWMFX | ★★★★★

\$28.75 ↑ \$0.55 | 1.95%

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## Morningstar Take

Hunting for dividends has its challenges but should continue to serve American Funds Washington Mutual well.

This Analyst Pick seeks dividend-paying stocks. Indeed, the fund has significantly more utilities, telecommunications, and industrial exposure than most of its peers in the large-value category. The fund's seven managers have also taken a liking to some dividend-paying pharmaceutical stocks such as Merck MRK, Abbott Labs ABT, and Johnson & Johnson JNJ. Drug companies have been battered by thin pipelines and political pressures, but many argue that their balance sheets remain strong and the prices of their stocks are unfairly low.

Dividend investing also poses other risks when it leads to large banks and financial institutions with opaque balance sheets, and this fund had its share of financials in the 2008 meltdown. The fund entered 2008 with General Electric GE, Bank of America BAC, Wells Fargo WFC, J.P. Morgan Chase JPM, Fannie Mae FNM, and Citigroup C all among its top 20 holdings. Although its painful 33% loss that year placed it in the top quartile of the large-value category, one might have hoped the quest for yield would have been more balanced among its managers with skepticism regarding these firms' financial health. Now, the fund's financial exposure is 9% compared with 21% for the large-value category average, so it the counselors have toned down the fund's investments in banks.

Finally, dividend investing often leads to mature businesses without significant growth prospects or businesses that have mediocre returns on invested capital. Verizon VZ and AT&T T, two of the fund's top holdings, face these challenges.

Still, mediocre businesses often get temporarily priced below what they're worth, and dividend investing winds up being a tough strategy to beat over the longer haul. The fund's 2.8% annualized return for the 10-year period ended Sept. 13 lands it in the top half of its category, bearing this thesis out.

## Stewardship Grade

This fund is supported by a shareholder-focused corporate culture and a fund board led by an independent chairman. Its fees also are reasonable. Overall, it's a strong steward of capital.

## Role in Portfolio

Core

## Strategy

This value fund invests by following this prudent investor rule: Buy the stocks of firms that have paid dividends in nine of the past 10 years. By mandate, the fund also can't own the stocks of tobacco and alcohol companies. The process has been tweaked over the years, but the overall spirit of its disciplined nature has been the same since 1952. The fund tends to be well diversified by stock and sector, although it's typically light in tech, where dividends are more the exception than the rule.

## Management

This fund's team members all have long tenures. James Dunton, the longest-serving member, has been on board for 30 years and boasts more than 40 years of investment experience. In addition, the team is supported by a very deep bench of experienced investment analysts. We find it laudable that short-term performance isn't rewarded here, as investment professionals are evaluated over four-year periods.