IF IT MOVES, GET ON IT

For David Alger, a stock that merely rises won't do. He wants to hold the hottest names of the day. Living on the edge has paid off.

By Jeanne C. Lee

DAVID ALGER DOESN'T AVOID stocks that bounce around a lot—he embraces them. After all, he figures, it's the volatile stocks that can reward you the fastest if you've really done your homework. Why rely on a slow, steady riser when there are starbursts out there? If one stock begins to fade, "then you take your money out and put it somewhere else," he summarizes briskly. "Time is money." Alger sees no good reason *not* to be aggressive. "It's like asking a basketball player, 'Why does taking three-point shots help your game?' " he explains. "If you can hit them, you should take them."

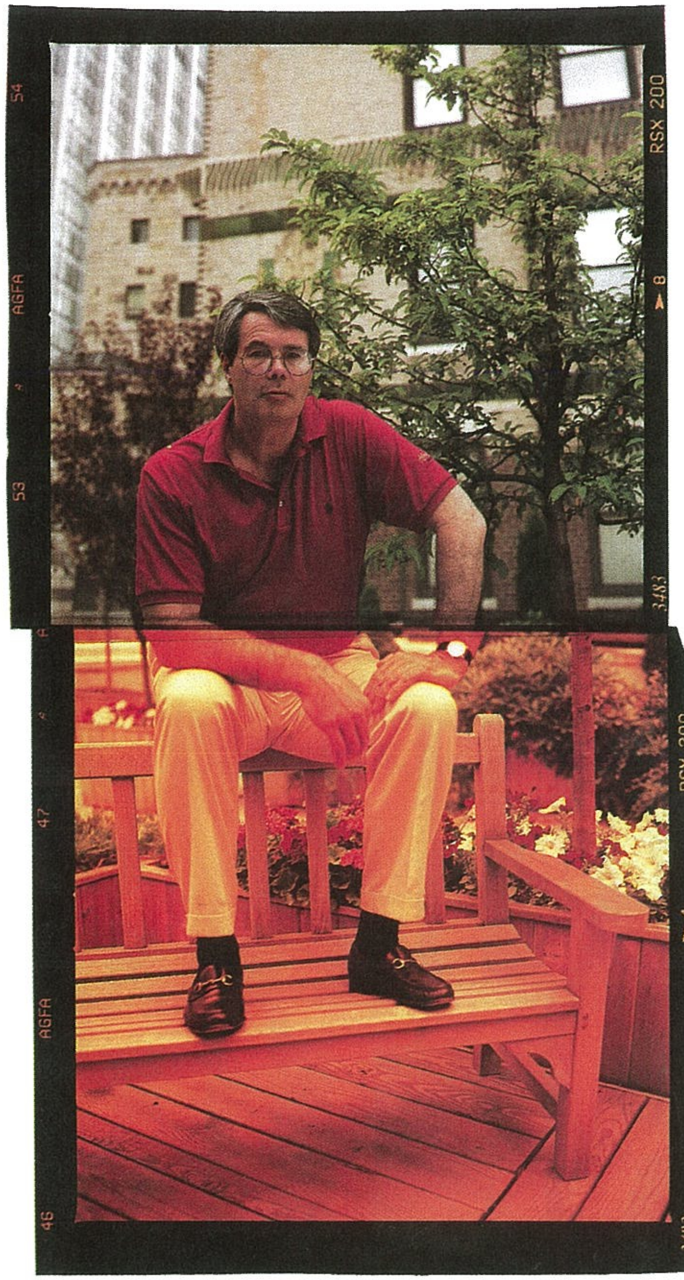
The 53-year-old Alger certainly likes shooting. Turnover in his Spectra fund is a sky-high 197% a year, well above the 118% average among similar growth funds. And by now he's proven that he can hit those shots consistently. Over the past ten years, his strategy has pushed the $48.9 million Spectra fund to a total annualized return of 19.5%, beating the S&P 500 index by nearly five percentage points.

Not bad for a guy who once envisioned a future in criminal law—a career path that he abandoned in college when one hot stock tip hooked him on the market for life. Aside from his success with Spectra, Alger has accomplished the rare feat of steering a fund to an industry-leading one-year return on two occasions: Alger Capital Appreciation beat all other mutual funds in 1995 with an eye-popping 79% gain for the year, and Alger Small Capitalization was the best fund of 1989 with a 65% return.

Okay, so how many different funds can one guy run? Try sixteen. His firm, Fred Alger Management (founded by his brother), with total assets of $8 billion, offers the no-load Spectra through Fidelity Fundsnetwork and Schwab OneSource, plus another 15 equity funds in three families sold through brokers. Alger is the lead manager of all of them.

He can handle this load, the kinetic Alger explains as he flits around his Wall Street office, because all he needs to think about is picking stocks; they get distributed among appropriate funds later. Plus, he's got a crew of 20 analysts feeding him research and, yes, tips.

Most of his stock ideas flow from what he calls "3½ meetings," separate weekly sessions with eight teams of analysts. The focus, essentially, is volatile stocks: anything in a 1,400-stock universe that has outperformed the S&P 500 by 3.5% or more in the previous five days. The way Alger sees it, a stock that's going to outperform over the long term will start by outperforming over the short term; the key is to identify which initial movers are going to *keep* moving. So he listens as his analysts comb through the "3½" companies. If something looks hot, Alger will act on it immediately.



PHOTOGRAPHS BY JAMES SCHNEPF

Alger's fast-moving style has taken his funds to the top of the charts.

Momentum investing? Sure sounds like it, but Alger bristles at the label, insisting that he doesn't buy purely on price movement. It's nothing more than a starting point, he says. On the other hand, Alger admits he's a chart addict: He hauls home reams of one-year stock-performance charts, and spends his Sunday evenings looking for anything the market (or his staff) might be missing. He rates every stock the firm owns on a one-to-five scale, based on its chart—one for a stock that's at a six-month low, five for a six-month high. Even if his analysts like a company's fundamentals, he'll sell if the stock-chart rating is a one.

To be sure, relying on such subjective measures and living on the edge has given Alger and his investors a few terrifying moments. Back in 1987, he admits, he had "a very unfortunate foray into market timing." Early in the year, he was convinced the market was headed for a crash, so in April he went defensive, moving 40% of his holdings into cash. When the market started to rise soon after that, clients were furious to be missing out. Alger second-guessed himself and put all his money back in the market—just in time for the October crash. "It was all very distressing," he sighs.

Another gloomy period: 1994, when his Small Capitalization fund was down as much as 18.7%. The fund rebounded a bit, but still ended up finishing the year 4.5% below where it started. Investors who had the stomach to stick with him, however, were ultimately rewarded in 1995, when the fund gained a hefty 49%. Today the fund boasts an annualized total return of 15.9% over ten years, comfortably ahead of the Vanguard Index 500's 14.4% average gain.

In the end, Alger says, it's the depth of his firm's research that separates him from the momentum pack. Two recent examples: Internet service provider America Online and Jones Medical Industries, a company that markets minor drugs obtained from larger medical companies. Jones popped up on the "3½" list earlier this year, rising to about $45 a share in June. Alger was tantalized, but was the company for real? When his analysts questioned Jones' clients about recent orders, they learned that Jones was planning a price increase. Alger theorized that the company's numbers looked good because customers were buying a lot now in order to beat that hike. That didn't sound like a recipe for sustainable growth, so he didn't take the shot. Sure enough, sales fell off when prices rose, and after a lower-than-expected pre-announcement of second-quarter results, the stock plunged to $27 in early July.

AOL appeared on Alger's list in June, and while Alger had stayed away in the past, he was interested now because the company's revamped strategy was bringing in fresh ad revenue. The problem? "We wanted to get a break on the price," says Alger, who won't bite unless he sees a big spread between the current value and the potential selling price. So he held off until AOL dipped from $61 a share down to $55 in early July, then started buying. "Now it's at $74," he crowed at mid-month. "So we've got a nice profit, even in a week." He sees the stock going to $110 a share in 1998—a 50% gain if he's right.

And, of course, if he holds on that long.

HOW DOES ALGER MANAGE 16 FUNDS AT ONCE? ALL HE THINKS ABOUT IS STOCK PICKS—THEY GET SPREAD AROUND TO THE FUNDS LATER.

ALGER LIKED AOL, BUT AT $61 HE FIGURED IT WAS TOO EXPENSIVE. WHEN IT DIPPED TO $55, HE STARTED BUYING. "NOW IT'S AT $74," HE CROWED A WEEK LATER.

HERE'S WHAT YOU GET after loads[1]

		RETURNS		RETURN	FEES		RISK	ASSETS	MANAGER
		AVG. ANNUAL 5 YRS.	AVG. ANNUAL 1 YR.	AVG. ANNUAL 5 YRS.	SALES LOAD	ANNUAL EXPENSES	STANDARD DEVIATION	$ MILLIONS	
GROWTH	GROUP AVG.[2]	17.2%	23.1%	16.7%					
PBHG GROWTH	800-433-0051	27.8%	−10.0%	27.8%	NONE	1.25%	28.6	$5,671	Gary L. Pilgrim
SPECTRA	800-711-6141	27.6%	22.8%	27.6%	NONE	2.52%	21.9	$42	David Alger
OAKMARK	800-625-6275	26.3%	29.9%	26.3%	NONE	1.18%	12.3	$4,895	Robert J. Sanborn
ROBERTSON STEPHENS VALUE+GROWTH	800-766-3863	25.5%	30.1%	25.5%	NONE	1.51%	21.0	$713	Ronald E. Elijah
FRANKLIN CALIFORNIA GROWTH I	800-342-5236	26.1%	20.6%	24.9%	4.50%	0.71%	15.8	$337	Conrad Herrman
MERRILL LYNCH GROWTH B	800-637-3863	24.7%	23.7%	24.7%	4.00%[3]	1.82%	15.7	$3,699	Stephen Johnes
LEGG MASON VALUE TRUST	800-577-8589	24.4%	52.0%	24.4%	NONE	1.82%	14.7	$2,686	William H. Miller III
[illegible] MID-CAP [illegible]	[illegible]	24.1%	17.2%	24.1%				[illegible]	Brian W H [illegible]

[1]Performance is through June 30, 1997, and net of annual expenses, brokerage costs, and sales loads. [2]Average annual return for all funds tracked by Morningstar in each category. [3]Deferred sales charge, which declines over time. [4]Includes growth-and-income and equity-income funds.