Date November 10, 2010

QUESTION: "I am wondering what is the difference between Fidelity Contra Fund/FCNTX AND FIDELITY INDEX FUNDS. I was talking to a friend at the fishing club on investing and he recommended that I go to a Broker that deals in Fidelity Index Funds. Give me some more information on your proposal."

Chuck

ANSWER:

Chuck,
Index funds are passive investments into a list of stocks that match a particular stock index. In an index fund, there is no analysis done, there is no trading in and out of stocks as the companies change or their management changes, or as their profits change. Index funds are usually less expensive, but in the case of Fidelity index funds, there are less expensive funds that would be better choices if your choice is to use index funds – specifically, Vanguard funds.

The Contrafund is managed by a particularly good manager (William Danoff) who adds a lot of "alpha" to the fund's performance. "Alpha" is the term used to describe a manager's performance relative to an index. In other words, this manager typically outperforms whatever index fund is being compared to the fund he/she manages. In addition, the Contrafund manager's style is to go where the potential profits are, and thus, he changes style as the market changes. I have seen him concentrate on small cap stocks, and then again, like today, he is investing in large cap growth companies.

The essential difference between the two funds - Contrafund and Fidelity index funds - is that Contrafund is actively managed, while the index funds are not managed. Frankly, I prefer to know that there is a good manager working for me when I invest in a fund, because then I can count on his/her creative choice of profitable and growing companies.

I like to choose the best managers I can find. They will outperform a comparable index fund almost all of the time. Contrafund is run by such a manager.

Dick