

Follow The (Smart) Money To Bigger Gains

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By Jim Pearce (bio at end)
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Sometimes, it helps to know what the "smart money" is doing. No matter how much analysis you do, if the mutual fund managers do not like your stock, then it is difficult to make much headway. But when they like the same stock you do, it is pretty much money in the bank.

Take French oil producer **TOTAL S.A.** for example. During the fourth quarter of 2017 its share price appreciated 4.6%, about a third less than the 6.7% increase in the SPDR S&P 500 ETF (SPY). At first glance, that may seem like an unimpressive result, but a closer examination reveals that it was entirely consistent with how the fund managers were trading the stock compared to individual investors.

It works like this; every SEC registered investment advisor must file a form 13F after each quarter that identifies all of its stock holdings and any changes to those positions. This information is publicly available, but there is a massive amount of data to sift through so you have to know what you are looking for.

Drilling Down on the Data

Of the 591 13F filers that hold Total, 227 of them bought more stock during the previous quarter while 165 of them reduced the size of their position. Cumulatively, their combined ownership in TOT increased from 134.8 million shares to 141.9 million, a gain of 5.3%. That number falls about halfway between the gain in TOT and the SPY.

One interpretation of that result is that fund managers are loading up on Total ahead of the public, possibly in anticipation of higher oil prices this year. Or, they may be anticipating increased economic activity in Europe (where Total is headquartered), recognizing that higher energy prices and a growing economy go hand-in-hand.

Either way, their actions can sometimes be viewed as a harbinger of things to come. If so, then the fact these sophisticated investors are loading up on Total faster than the general public may be telling.

Information Pipeline

To take this analysis one step farther, it would help to know precisely which fund managers have been adding to their positions in a stock, and which have not. Not all fund managers share the same investment objective, so their reasons for buying and selling a stock are not the same.

Fortunately, the 13F filings can tell us that, too. Ideally, you would like to zero in on a set of fund managers who have an investment objective and risk tolerance that are the same as yours.

It helps to know if fund managers must sell a stock for no reason other than it no longer meets the investment criteria for that portfolio, even if in all other respects they still like the company. Also, index funds are compelled to buy and sell shares of every stock in their index to maintain proper weighting, and must add and remove stocks that grow too large or too small to remain in that index.

<continued>

Reason for Believing

That is why simply looking at the overall numbers can be misleading, but knowing exactly which numbers to look at can be extremely helpful (and profitable). In Total's case, we can quickly see that Amundi Pioneer Asset Management was the single biggest fund buyer of TOT during the previous quarter, adding more than 3 million shares to its portfolio.

The good news is Amundi is the largest asset management company in Europe, so it is presumably well acquainted with Total which is based in Paris, France. The second largest buyer of Total, Miller/Howard Investments, runs an energy portfolio out of Luxembourg, so that is also encouraging.

As for the biggest sellers of TOT, Baltimore-based index fund manager T. Rowe Price is at the top of that list. But that is okay since most, if not all, of those shares were presumably sold to mirror the weighting of an index, and does not reflect a subjective opinion about Total's future prospects.

P.S. If you don't have the time to read through hundreds of pages of 13F filings to figure which stocks are likely to out-perform the market this year, click [HERE](#) for an explanation of how our team can do it for you.

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Jim Pearce is the Chief Investment Strategist of *Personal Finance*, our flagship publication. He is also the Director of Research at Investing Daily, overseeing the work of our entire analyst team. He began his career as a stockbroker in 1983 and over the years has managed client investment portfolios for major banks, brokerage firms and investment advisors. Jim has a BA in Business Management from The College of William & Mary, and a CFP from the College for Financial Planning.