



**Mutual Funds** 3/20/2007 12:00 AM ET

## A look at Barack Obama the investor

The Democratic presidential hopeful may be a fresh face in politics, but he is treading familiar -- and conservative -- ground with his investments.

By [Tim Middleton](#)

As an investor, Sen. Barack Obama is as conservative as a bank trust department but gets results well above the norm.

The Democratic presidential candidate's investments became an issue after Senate financial disclosure forms showed he had invested in two small companies linked to a campaign contributor. He said his broker had bought them without his knowledge.

He dumped the stocks, but what he held on to reveals someone more interested in protecting his wealth than increasing it. The 50th-richest senator, with a net worth at the end of 2005 of between \$1 million and \$2.5 million, has most of his assets in bank and retirement accounts, owning only three publicly traded securities.

All three, two Vanguard mutual funds and a Nuveen closed-end fund, are partly or entirely invested in fixed income securities. Despite providing little opportunity for capital appreciation, they delivered combined returns of around 15% in 2006, only slightly less than the **S&P 500 Index** ([\\$INX](#)).

"The man is conservative and smart," says Linda Gadkowski, a financial adviser with CFP Beacon Financial Planning in Centerville, Mass.

The lesson for lower-profile investors? Slow and steady can still win the race.

### A candidate in the Vanguard

Senators are required to disclose their finances within broad ranges every May 15 for the prior year. The current filing, for 2005, is tracked by the Center for Responsive Politics at [opensecrets.org](http://opensecrets.org). Obama's office said the 2006 filing hasn't been made.

The two largest assets listed are a checking account with Northern Trust and an account with JPMorgan Private Client Asset Management, each in the range of \$100,001 and \$250,000.

A spokesman for JPMorgan said confidentially agreements prevented him from gaining direct knowledge of what the private client account holds. He added, however, that it could be a managed-asset account, in which the account holder is matched with a basket of securities selected by the bank and tailored to his risk tolerance.

Six other assets were reported, all in the range of \$50,001 to \$100,000. These include an Illinois retirement fund (Obama was formerly a state senator) and a UBS Bank USA deposit account.

Both Obama and his wife owned **Vanguard Wellington Fund** ([VWELX](#)), whose assets are divided roughly between domestic and foreign equities (65%) and bonds and cash (35%). Together, they reported receiving fund distributions of between \$7,502 and \$20,000.

Wellington, which ranks among the top 10% of funds of its type as measured by Morningstar, delivered a total return of 15% in 2006 and an annual average of 8.1% over the five years ended March 14.

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Obama's wife also reported owning **Vanguard Wellesley Income Fund** ([VWINX](#)) and receiving distributions from it in the range of \$1,001 to \$2,500. It returned 11.3% last year and an average of 7% over the past five. Wellesley is tilted 60% toward bonds and 40% toward stocks, nearly all of them domestic.

### A little leverage

Jointly, the Obamas reported owning **Nuveen Floating Rate Income Fund** ([JFR](#), [news](#), [msgs](#)). This closed-end fund owns interests in floating-rate corporate debt, such as that of Adelphia Communications and Charter Communications. It is also nearly 40% leveraged, meaning it raises capital beyond its net asset value (NAV) to buy more securities and deliver a higher yield than mutual funds can achieve. Its yield as of March 14 was 8.7%. The NAV is the total value of its holdings divided by the number of shares.

Closed-end funds are fixed portfolios that trade like stocks throughout the day. They can and do trade at discounts or premiums to their NAV. In 2006, this fund's NAV advanced 8.3%, but its share price soared 17% as a steep price discount all but disappeared. As of March 14, the fund's market price was \$13.81, about 1.7% less than its NAV of \$14.05. While the Vanguard funds are conservative, mainstream investments, noted both for their low fees and solid performance, closed-end

funds are more esoteric. Public information about them is limited and their managers seldom talk to the press. They are mostly purchased by high net-worth individuals through brokers who have specialized knowledge about them.

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Leveraged closed-end bond funds do particularly well when interest rates stop rising, as they did in the summer of 2006 after two years of consistent increases.

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Don Martin, president of Mayflower Capital in Los Altos, Calif., says that as a presidential candidate, it's not surprising that Obama has turned over a chunk of his assets to a bank like JPMorgan. "He has no time to pick investments," he said, adding, "The fact that he chose Vanguard shows he is aware of sensible ideas in investing and is not blindly being sold some type of overpriced, flashy, hot investment."

#### Lesson learned

It was flashy investments earlier in 2005 that got Obama into trouble. His filing indicates the purchase in February of that year of shares in **AVI BioPharma** ([AVII](#), [news](#), [msgs](#)) and **SkyTerra Communications** ([SKYT](#), [news](#), [msgs](#)), tiny firms whose backers included George Haywood, a friend of and contributor to Obama.

After the investments were disclosed two weeks ago by The Street.com, Obama said he had undertaken investing after having signed a \$1.9 million book deal. He said Haywood recommended a broker, who bought the stocks in what media accounts describe as a semiblind trust. Obama said he subsequently shifted out of the stocks, at a small loss, and into mutual funds.

As well as lowering the political profile of his portfolio, the move makes good investment sense, says Jeff Cedarholm, a financial adviser in Gadsden, Ala. "Obama is fresh face who will hopefully put forth some new and workable ideas. But he has investments that are a throwback to what has worked for many years. Smart guy."

*At the time of publication, Tim Middleton didn't own any securities mentioned in this article.*