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Leading Equity Mutual Funds in the 3rd Quarter *Total percent return in U.S. dollars, June 30 to Sept. 30, 1998*

U.S.		U.S.		Offshore		Britain		France		Germany		Switzerland	
Prudent Bear Fund	21.93	Fidelity Sel Prec Mfis	10.14	**Indian Smaller Cos**	**23.20**	Old Mutual Thailand Acc	17.75	Renaissance	4.64	Numberger ADIG R	12.70	UBZ Gold	15.78
Profunds UltraBear; Inv	17.88	Fidelity Sel Computer	8.78	India Liberalisation A	22.00	Mercury Gold & General	12.23	CFG Nouveau Marche	-1.65	Vermogens Ertrag Funds	9.50	SVB Emetac	12.50
Comstock Cap Value, A	17.48	Gabelli Gold Fund	8.63	GT Indian Sm Cos A	19.14	Schroder Seoul	8.54	Cogefi Carpe Dern	-5.28	DWS-Goldminenaktn	09.37	CS Eq Fd Gold	11.99
Lexington Strat Invments	16.67	Monterey; OCM Gold	8.27	CL Lion-Belg Index	14.91	CF The Utilities	7.40	Ulysee	-6.12	N-Fonds NR1 Europa	0.33	SBC Eqty FD Gold	8.22
O'Higgins Fund	11.59	Sm Barney Telecomm Inc.	8.12	Mercury ST-Gold&MinA	14.20	Eagle Star Income	6.45	UFF Avenir France	-6.98	DIT Deutsche Aktn RB	0.00	UBS Eqinv-Gold	4.28
Jundt Twenty-Five;1	11.22	Jundt Opportunity; 1	7.96	Mercury Int Gold&Gen	13.98	M&G Gold	4.84	Capital Emploi (C)	-7.20	DWS-Pharma Aktn RB	-0.06	Swissca Gold	1.90
ProFunds:Bear; Inv	11.10	US Gibl;Gold Shares	7.89	MorgStan-Gold 1	13.80	Gan Income	4.66	Vivopportunit6s	-7.31	Zurich Invest Global	-0.22	CS Eq Fd Korea	0.16
Potomac US/Short	11.00	Pioneer Gold Shares;A	7.87	Baring Peacock Fund	13.42	Save & Prosper Korea	4.60	Agressor	-7.61	DWS US Technoaktien O	-0.73	DWS (CH)-US Equities	-2.34
Rydex:Ursa Fund	10.86	Amer Cent:AC G1 Gold; Inv	7.76	Fidelity Fds-Thai	13.13	Close Capital Account	3.55	Declic Sogenfrance Tempo	-8.37	Adiasa	-1.51	L0dier Immunology	-2.67
PIMCO;Prec Metals; C	10.60	First Inv Gvt Plus;1	7.69	BBL(L) Inv-EqFx,Japan1C	12.70	Edinburgh Safety First	2.57	Open Garantie 100 No4	-8.52	Fondiro	-1.79	DH Taipan	-2.79
		Group Average	13.77	Group Average	13.72	Group Average	-12.94	Open Garantie 100 No3	-8.69	Group Average	-12.04	Group Average	-12.63

Source: Lipper Analytical Services; Europerformance (France).

Look No Further Than the Gathering Gloom: The Bear's Upon Us

EVER WONDER what a bear market feels like? It feels just like this- The promise of double-digit returns every year has given way to a hope of getting out even, the result of a double-digit move in the wrong direction in less than three months for most major stock markets.

Investors who had bought the dips are selling the rallies. They no longer believe the arguments of market analysts who had heralded a new era of unending prosperity or used ever-more bizarre mathematical contrivances to justify unprecedented share valuations.

The scenario that seems more plausible now - even though it is presented by many of the same analysts - is that corporate profits are growing far more slowly, than before, if at all, and that the new era will be characterized by deflation and possibly, a crumbling of the world's financial system.

Investors who thought they were preparing for such a grim eventuality by owning a diversified, professionally managed equity mutual fund will have to think again- Americans had 6,616 of those to choose from, only 150 of them, barely more than 2 percent, made money in the three months through September, according to Lipper Analytical Services Inc., which compiles data for The Money Report's quarterly funds review.

The average U.S. stock fund lost 13.8 per cent in the period,the worst since the 1990 bear market and recession. Domestic general equity funds, which focus on broad segments of the U.S. market, rather than on individual industries or foreign markets, did worse: The average one fell 15.0 percent, and just 14 of 3,670 funds made money.

Returns of funds based elsewhere show that few of the world's stock markets provided a refuge in the quarter. Stock funds domiciled in leading off Shorecenters, such as the Channel Islands and Luxembourg, fell 13.7 per cent. Declines in British, German and Swiss stock funds were smaller but still in double digits, (All returns are calculated in dollars for the sake of international comparisons.)

As with the U.S. equity funds, few in the other jurisdictions could scrape through the quarter with a gain. French funds were the worst: out of 861, only 13 rose. Swiss funds were the best, although with seven winners among 105, the superlative is qualified.

In the four European markets, domestically invested, general-equity funds performed worse than those investing abroad. Strong European currencies boosted the value of assets when expressed in dollars, but this was more than compensated for by the expectation that currency strength would hurt domestic manufacturers.

Where did the money go after it was pulled out of stocks? Much of it went into bonds. Bond funds were up in every domicile, led by, an 11.0 percent rise in France, helped by the strong franc.

American investors taking heart from the fact that at least some equity, funds made money may lose it again after studying the list of top performers. Five of the 20 best funds - all ranked ninth or better - specialize in short-selling, a strategy intended to profit from declining share prices. The two best French equity funds also were short sellers.

Prudent Bear Fund, a short-selling fund profiled in The Money Report in May, a month after the broad market topped and two months before blue-chip indexes followed, was the best performer in the quarter, up 21.9 percent. That helped it eke out a 3.7 percent gain over the 12 months through September, compared with a loss of 8.1 percent for the average equity fund.

Being short the market obviously accounted for most of Prudent Bear's strength in the quarter, but stock-picking helped, too, for the magnitude of its gain was greater than the magnitude of the losses of the average equity fund and the benchmark Standard & Poor's 500 stock index, which fell 10.0 percent.

"We've been short some aggressive stocks," said David Tice, Prudent Bear's manager. He added that "being in the right stocks at the right time" has been critical. Short-selling can be a dangerous enterprise, and aggressive stocks can take their aggression out on investors who bet the wrong way.

Mr Tice has especially benefited from the collapse in financial-service and technology shares. Among his best shorts have been Internet-related businesses such as America Online Inc., Lucent Technologies Inc.and "crummy companies" like SportsLine USA Inc., which offers spot is scores on the Internet and tries to make money by selling advertising. Since he shorted SportsLine, the price has fallen from $25 a shareto $10; even so, it is priced at 10 times annual revenue, he said.

Financial shorts include Bankers Trust Corp and Citicorp, which through its merger with Travelers Group Inc. Another is First Plus, a home-equity lender offering mortgages up to 125 percent of a home's value at a time when Americans have taken on dangerous amounts of debt. The stock has fallen from $25 to $2 since the fund shorted it.

Short-selling funds are now a growing fixture in the U.S. fund universe, said James Stack, editor of the newsletter InvesTech Mutual Fund Advisor.

The latest wrinkle is funds that short the Nasdaq over-the counter market, where trading has been more volatile than on the New York Stock Exchange. Even that volatility is not enough for some funds, notably Pro Funds UltraShort OTC. It sounds like a cigarette for people desperate to quit, but UltraShort is a fund that shorts the 'benchmark' Nasdaq100 index and uses average to double its exposure to the index.

Mr. Stack recommends several bear funds, including Prudent Bear, but prefers to pass on the more aggressive ones. "Our primary objective in this bear market has been, is and will be to survive with our portfolios intact," he said. "Any profits along the way are merely gravy."

Mr. Tice at Prudent Bear is not a fanatical short-seller. The fund also owns a handful of stocks. Some, such as Restaurant Brands, are about as far off the beaten path as is possible - it holds Kentucky Fried Chicken and Pizza Hut franchises in New Zealand. Other long positions are in gold stocks, including Anglo-American, Homestake Mining and Newmont Mining.

Investors traditionally turn to gold in a crisis, and mining stocks often rise when others fall. The third quarter was no exception: The only one of Lipper's 35 categories of equity funds to rise comprised gold funds, up 4.3 percent.

Eight of the top 20 American stock funds target mining shares, and mining funds also were prominent among the leaders elsewhere, especially in the off shore territories and Switzerland.

In their rush to buy – U.S.based funds leaped 42.9 percent during September alone, as the price of the metal rose about 10 percent - investors apparently did not notice that the bullion price barely budged against the yen and European currencies. It was not so much that gold rose as that the dollar fell.

Even so, for Graham Birch, who runs metal and mining portfolios for Mercury Asset Management, including several that were among the quarter's best offshore and British funds, "The rally inSeptember was very welcome."

Gold-mining stocks "were down 70 percent from their 1996 peaks and were probably due for a reasonable rally any way, even if the gold price hadn't started to go up," he said.

"The investment arithmetic had started to look very attractive, especially for South African gold shares, which had benefited from the weakened trend of the rand," he added.

For those with faith in the gold business, "South African companies are the most attractive," Mr. Birch said. He also likes some Latin American producers, including Cia de Minas Buenaventura in Peru. Among the North Americans, he likes Newmont Mining Corp. and prefers to avoid Barrick Gold Corp. because it has hedged large portions of its production against a price decline and so will not gain as much from an increase.

He added a warning to prospective investors: "What we always try to remind people is that gold shares are highly volatile; it's not a sector for novice investors. Even for serious investors, it's not a sector to put a large part of their portfolio wealth into. They should put in enough so that if gold goes up, they can feel how clever they've been, but not so much that if gold goes down, the value of the portfolio gets seriously hurt."

Many equity portfolios were hurt in the quarter. Of the 35 Lipper categories, six lost more than 20 percent, including specialists in smaller companies and Latin America. Sixteen others lost more than 10 percent.

The groups with losses of less than 10 percent included balanced funds, which can own stocks or bonds, and funds investing in utilities, the Pacific and health-care companies. Large companies, which have beaten the broad market for several years, continued to broad market for several years, continued to hold up better; funds tracking the S&P 500 also posted a single-digit loss: 9.99 percent.

Lipper delineates investment objectives for offshore funds mainly by geography, rather than by industry. Of 47 countries and regions, stock funds targeting four made money, three in Asia, where markets enjoyed a respite from the year's relentless selling.

Funds targeting South Korea and Thailand were prominent on the list of offshore winners, as were India funds, which took the top three spots.

The Southeast Asia funds were all down by more than half in the 12 months through September, while the funds investing in India, which has been spared most of the turmoil in the region, showed either gains or modest losses.

In India what you've got is something quite different-said Jon Thorn, managing director of Asia Pacific Securities Corp., whose Indian Smaller Companies Fund was the top offshore stock fund, with a gain of 23.2 percent percent in the quarter. "It's absolutely a domestic-oriented economy. Exports as a percentage of gross domestic product are tiny, and the proportion of long-term to short-term debt is good."

The benefit to business is that as India develops, the number of its citizens who cross the threshold into the consumer class grows substantially, Mr. Thorn said.

"You've had GDP growth of 5 to 6 percent," he added.-If it continues to grow like that, if there are 100 million who can afford to buy a motorbike, then that number expands to 200 million over five to six years."

One big gainer in his portfolio, Essel Packaging Ltd., makes toothpaste tubes for Unilever and Colgate. With output approaching 1 billion tubes a year, it is the second-largest manufacturer of them in the world.

Indian companies often form alliances with Western partners. Another example from the fund's portfolio is Wyeth-Lederle Ltd., a joint venture with American Home Products Corp.

It's done tremendously well for us, up 120 percent for three years," Mr. Thorn said. "Its such a tremendous company, the most efficient and cheapest manufacturer of steroids in the world"

Whilst there are a few places where stock markets have been rising. bonds have done extremely well, as long as their issuers' credit worthiness is beyond reproach, a reflection of the sudden attention and aversion to risk among investors.

Bond funds based in the four European countries did far better than those in the United States and offshore. European funds benefited from the strength of their home currencies, which augments returns expressed in dollars and tends to attract foreign investment- Also, European bond markets are dominated by government debt, which is perceived as safer than corporate debt. American funds are more inclined than European funds to own corporate bonds, especially the high yield issues of suspect borrowers that have lately been shunned.

Offshore bond funds tend to own more debt issued in developing countries than either U.S. or European funds do. This debt is hard to trade and often denominated in currencies thought to be in danger of devaluation. After the default in Russia, investors are worried that larger borrowers, notably Brazil, will be next. Offshore funds targeting bonds in Latin America, the biggest region for emerging-market debt, fell 18.2 per cent in the quarter.

Ruaraidh MacDonald, who runs European bond portfolios for Dresdner RCM Global Investors, said he spent the quarter exclusively in high-quality government bonds; 80 percent carried the highest credit rating, with the rest one degree lower. The bonds were also of long duration, meaning they are most sensitive to movements in interest rates, and concentrated in Britain, Denmark and Germany

In the last week or so Mr. MacDonald has been shifting into bonds of much shorter duration. "We think that short bonds will outperform because we're going to see a response to this liquidity crisis," he said. "There is going to be a reflation of the financial system driven by the U.S. and that isgoing to raise concerns about the possibility of overinflating. Investors haven't been looking at this yet. Fear of deflation is going to raise fears about longer-term bonds and future inflation.

Another possibility, Mr. MacDonald said, is that too little will be done and the deflation that the markets suddenly fear will take hold.

The chance of a policy error during this period is higher than it's been for a decade," he said"It's difficult to say whether deflation or my scenario will work out."

Either would be grim. No matter how bad a bear market feels, it can always feel worse.