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TIP SHEET: Miller Sees Opportunity In Adapting To Times

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NEW YORK (Dow Jones)--For Miller/Howard Investments' President Lowell Miller, investing is all about moving with the times.

Miller's Flex-Funds Total Return Utilities fund was founded on the belief that people can earn solid returns by investing in socially responsible utility companies that pay steady dividends. But as the years passed, Miller found that changing times mean changing opportunities.

The fund saw increased opportunity in energy companies that were open to consolidation and decreasing benefits in investing in telecommunications stocks. As a result, Flex-Funds populated its portfolio with small and mid-capitalization utilities that will likely be takeover candidates. Among the fund's holdings are Cinergy Corp. (CIN) - which agreed in early May to be bought by Duke Energy Corp. (DUK) in a deal worth $9.1 billion in stock - and ScottishPower PCL's (SPI) PacifiCorp unit, which was bought in late May by Berkshire Hathaway Inc. (BRKA, BRKB) unit MidAmerican for about $9.4 billion.

"Apart from the fund's original strategy, we started buying only utility takeover stocks," Miller said. "It looks like the pace of acquisition now is ramping up to symphonic proportions."

It's a strategy that's helped the fund post some solid gains. According to Morningstar.com, which gives the fund three stars, the Flex-Funds Total Returns Utilities fund is up above 5% year-to-date, beating the Standard & Poor's 500 Index by 5.86%.

And on a one-year basis for the period ending Friday, the fund's performance has been stellar, Miller said, with gains of 25%.

Miller likes Southwest Gas Corp. (SWX), Energy East Corp. (EAS) and CH Energy Group Inc. (CHG), which he said were modestly valued takeover candidates that remain good investments. Southwest Gas shares recently traded at about $25.50. Energy East recently changed hands at about $28.90, and CH Energy recently traded at about $45.45

The fund also rebalanced its portfolio to reduce exposure to the Baby Bells - a group that once made up 20% of its portfolio - and loaded up on natural gas and exploration companies such as Anadarko Petroleum Corp. (APC), which recently changed hands at $77; Burlington Resources Inc. (BR), lately trading at about $51.69, and Devon Energy Corp. (DVN), trading at about $46.90.

Miller said electricity production in recent years has increasingly been gas-powered. He added there has also been an increase in drilling for gas while, at the same time, reserves have been steadily declining. By adding natural gas and exploration companies with more strong financials and those that pay dividends, the fund has been able to increase in value and stability.

That's not to say that Miller totally shies away from telecommunications as a sector. The fund still owns Telefonos de Mexico S.A. (TMX) and Hong Kong-based China Mobile Ltd. (CHL), which remain cheap at about $18.85 and $18.55, respectively. China Mobile, which trades as an American depositary receipt, has an added benefit from long-term weakness in the dollar.

Miller said the fund avoids large-cap electric stocks because valuations remain overextended and those companies tend to use nuclear power, which is against the fund's socially responsible criteria.

(Shaheen Pasha covers the insurance industry for Dow Jones Newswires.)