



Index Returns

	1996	1997	1998	Last 6 yrs.	4/28 1999
Bonds					
Short-term	5.8	6.0	5.7	5.4	+ 1.6
Intermediate	2.4	9.2	10.5	7.7	-1.0
Long-term	-1.3	14.3	12.0	8.9	-1.7
Global	10.8	8.3	8.4	8.3	+ 2.6
U.S. stocks					
Large Market	22.9	33.2	28.7	21.4	+ 9.5
Large Value	20.2	28.1	12.0	18.3	+ 14.8
Small Market	18.2	24.6	-5.5	12.4	+ 0.5
Small Value	22.3	30.7	-7.3	16.0	+ 1.3
Real estate	33.8	19.3	-15.4	8.2	+ 4.7
Int'l stocks					
Large Market	6.4	5.5	18.2	12.1	+ 5.6
Large Value	7.8	-3.1	14.9	13.5	+7.0
Small Market	2.6	-23.7	8.2	4.2	+9.4
Small Value	1.0	-22.7	5.3	3.7	+ 12.0
Emerg. Mkts.	11.4	-18.9	-9.4	5.4	+ 24.3

Descriptions of Indexes

Short-term bonds	DFA One-Year Fixed Income fund
Intermediate bonds	DFA Intermed. Gov't Bond fund
Long-term bonds	Vanguard Bond Index Long-term
Global bonds	DFA Global Fixed Income fund
U.S. Large Market	Vanguard Index 500 fund
U.S. Large Value	DFA Large Cap Value fund
U.S. Small Market	DFA US 6-10 fund
U.S. Small Value	DFA US 6-10 Value fund
Real Estate	DFA Real Estate Securities fund
Int'l Large Market	DFA Int'l Large Cap fund
Int'l Large Value	DFA Int'l Large Cap Value fund
Int'l Small Market	DFA Int'l Small Company fund
Int'l Small Value	DFA Int'l Small Cap Value fund
Emerging Markets	DFA Emerging Markets fund

"Last 6 yrs." returns for U.S. Large Value (3/93), U.S. Small Value (3/93), Int'l Large Value (3/93), Int'l Small Market (10/96), Int'l Small Value (1/95), and Emerging Markets (5/94) include simulated data prior to fund inception (in parentheses).

This information is obtained from sources we believe are reliable, but we cannot guarantee its accuracy.

Past performance does not guarantee future returns.

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Markets Update Friday, April 30, 1999

After 18 months of dominance, U.S. large growth stocks have conceded their leadership to their value cousins—at least for the moment. Small company stocks in both the U.S. and overseas have perked up recently also, but still have a way to go to make up lost ground.

To many investors, large growth stocks have thrown off the shackles of accepted risk and return principles and new rules have been written. We don't believe this. We think that "forgotten" stocks will eventually be "rediscovered" and the euphoria for large growth stocks will give in to more rational thinking. We may already be seeing this. A slow "rotation" from one asset class to the others would be welcomed. But investors should be prepared for a more dramatic jolt. Sometimes it takes a slap in the face (or pocketbook) to convince some investors how unpredictable the markets really are.

9/30/97: The Market AG (After Growth)

Jeff Troutner, TAM Asset Management, Inc.

A little over eighteen months ago, returns on U.S. stocks took a dramatic turn. From January 1, 1995 to September 30, 1997, the returns for U.S. large growth, large value, and small value stocks were very similar. Since September 30, 1997 large growth stocks have clearly dominated.

We have seen some rotation in the month of April to value stocks, and even small company stocks are showing new life. But there remains a very strong and persistent feeling among many investors and financial experts that we have entered a new era in the financial markets that favors large U.S. growth companies.

As we alluded to last month, many long-term investors have decided to shift their asset allocations toward U.S. large growth stocks. Unfortunately, most of these investors will have made the decision based simply on one criteria: the relative and absolute returns of the S&P 500 over the past year and a half.

Chet Currier, a writer for the *Associated Press*, had some interesting thoughts on this topic in a recent article titled Diversification is a wise investment philosophy. Speaking as a diversified investor questioning why he has owned international funds, small-stock funds, bonds funds, and money market funds he says:

"Looking back, it's obvious that blue chip were the way to go. Why did I listen to the people who told me to spread my money around?"

Such sentiments are all too human. The mind tends to confuse hindsight with insight and to presume that whatever happens was the only thing that could have happened. Since the way things played out was inevitable, any smart person ought to have figured it out beforehand.

Before you berate yourself in this manner or start frantically shaking up your whole investment plan, remind yourself that neither you nor anybody else knew in advance how the economic history of the 1990's was going to unfold. Likewise, nobody knows now how the first decade of the 21st century will go.

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Currier quotes money manager Paul Merriman:

“Think for a moment about the investment situation in Japan exactly 10 years ago. It was obvious then to anybody who read the newspapers that Japan was on a meteoric rise. Japan’s economy, the second largest in the world, seemed to be on the brink of threatening the United States for the No. 1 position.

“Imagine you were an investor working and living in Japan 10 years ago. If you were prudent, you might have thought about buying some stocks in big U.S. companies. You would have been scoffed at. You might have been told ‘There’s no need to invest outside Japan. Everything you need is right here.’ Investment risk was seen as an outdated, stodgy concept. Nirvana had arrived.”

Merriman goes on to point out that the average Japanese stock fund returned an annualized 3.4% from 1989 through 1998.

As Currier states, *diversification protects us against surprises*. Most long-term investors don’t want to bet all of their money on one asset class, and with index and asset class funds *they don’t need to*.

Just how narrow was last year’s market?

Before declaring the current market environment a “New Era” and adopting a more concentrated approach, investors would also be wise to dig a little deeper into the numbers. Following the *trend* of a market index without analyzing the *breadth* of the movement or the changes in market *fundamentals* could prove to be very detrimental to future returns.

The table below shows the performance of the S&P 500 in 1998 compared to the return if the largest, 5 largest, and 10 largest companies were excluded from the index. In the last case, total return was cut almost in half.

Table 1: The Narrowness of S&P 500 Returns in 1998

Index	Stocks Excluded	Return
S&P 500	None	28.7%
Less top stock	MFST	24.7%
Less top 5 stocks	MFST, GE, INTC, WMT, XON	19.6%
Less top 10 stocks	above plus MRK, IBM, KO, CSCO, T	15.0%

Table 2 shows the same exercise with the NASDAQ Composite index. The return difference is even more dramatic, going from 39.6% for the total index to a loss of 17.6% if the top 10 stocks were excluded! While the S&P 500 index is made up of 500 large companies, the NASDAQ Composite consists of over 5,000 different companies ranging from the very largest, like Microsoft, down to obscure “microcap” stocks.

Table 2: The Narrowness of NASDAQ Returns in 1998

Index	Stocks Excluded	Return
NASDAQ Composite	None	39.6%
Less top stock	MFST	23.7%
Less top 5 stocks	MFST, INTC, CSCO, WCOM, DELL	- 7.0%
Less top 10 stocks	above plus ORCL, SUNW, AMGN, TCOMA, YHOO	- 17.6%

A market (or investors) on Viagra?

Another interesting exercise is to see whether the market performance developed consistently over time, or if brief surges of excitement drove it higher. As Table 3 shows, without the top 20 performance days last year, the index would have fallen almost 22%!

Table 3: Don’t Sneeze or You’ll Miss It!

1998 S&P 500 total return	28.7%
1998 S&P 500 less top 10 performing days	-6.5%
1998 S&P 500 less top 20 performing days	-21.9%

Narrow market performance, generated over a handful of days throughout the year? The stuff of “New Eras”?

How much more do you want to pay for growth?

Finally, the chart below shows the growth of the S&P 500, U.S. large value stocks, and U.S. small value stocks since the end of 1994 (line) and the change in price-to-book ratios over that time (columns). You can see the dramatic change in performance since September, 1997 (grey area) and the fact that investors today are willing to pay twice as much relative to book value for the S&P 500 than they were only four years ago. On the other hand, price-to-book ratios for all value stocks have remained almost unchanged.

We believe this information should lead investors to desire more, not less diversification for their portfolios.

