

TAM ASSET MANAGEMENT REVIEW

Facts & figures on global
investment strategies

July, 1993

The Purpose of This Newsletter

Our goal is to provide short, to-the-point articles on any topic that benefits long-term investors. For guidance, we will rely on many of the principles outlined in the 1990 restatement of the *Prudent Investor Rule*; review objective data from a variety of experienced and reputable sources, and challenge much of the mainstream marketing hype flowing from "Wall Street" and its legion of brokers, financial planners, and money managers. We will also draw on my thirteen years of experience working for and evaluating investment managers and selling investment services as a broker with a major Wall Street firm.

In the end, this newsletter can only provide food for thought. I firmly believe that to be successful over the long-term, investors must accept the ultimate responsibility for their investment decisions. Since stock selection and market timing techniques have been shown over and over to add no value to investors, blaming brokers or money managers for failing to meet *your* objectives is not productive. Investors today have the information and basic investment "tools" to take control of their portfolios, lower their costs, and become the ultimate winners in a process that in the past favored only the financial "experts".

As you will come to know, either through the "School of Hard-Knocks" (from which I have a PhD) or through assistance from advisors like us, you should only take what the markets give you. To expect more over the long-term is unrealistic and foolish. Maximizing your return through proper management of market risk is the key to long-term investment success.

Jeff Troutner
TAM ASSET MANAGEMENT, INC.

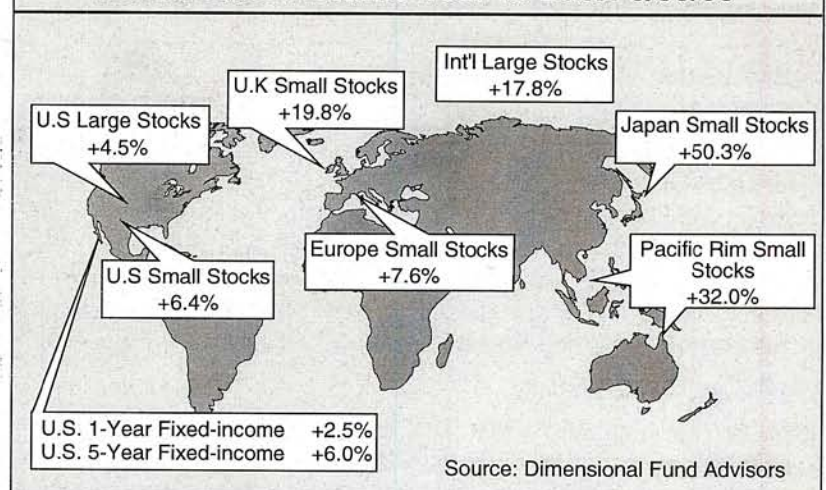
Is Investing More Complicated Today?

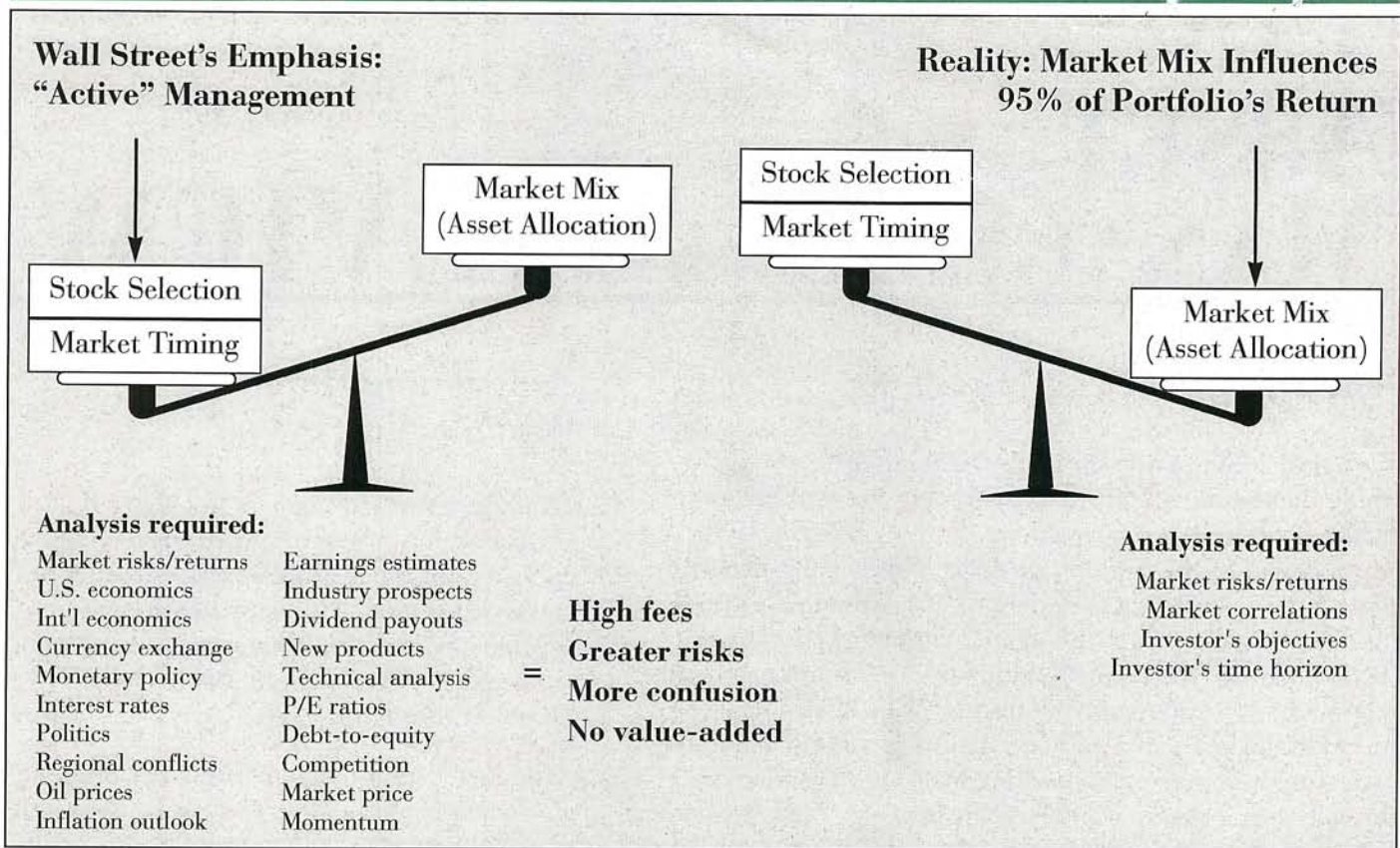
Wall Street would like you to believe that investing for long-term growth is too complicated for the average investor to undertake on his own. "So many investment options. So many mutual funds and money managers to choose from. Pay us to help you sort through the mess".

The fact is long-term investing has become *less* complicated. Most of what brokers and money managers do for investors adds nothing to the bottom line (The Prudent Investor Rule refers to stockpicking techniques as "uncompensated risk"). But for Wall Street to admit this and refocus their brokers to offer the services investors *really* need is far too costly. Therefore, it is up to individual investors and retirement plan fiduciaries to understand the changes that have occurred over the past ten years, to recognize the

Continued on back...

Asset Class Returns Year-to-Date: 6/30/93





Is Investing More Complicated Today? (cont.)

important decisions that must be made, and to define the role an advisor should have in helping fulfill their objectives.

The illustration above shows many of the "sophisticated" techniques brokers and money managers use to "beat the market". The scale is obviously tilted heavily in favor of the "active" management techniques of stock selection and market timing. The fact is, the asset allocation decision has, by far, the greatest impact on bottom line returns. The information needed to arrive at the best long-term asset mix for your portfolio is limited to your personal or retirement plan objectives and the risk/return characteristics of the primary financial markets.

Definitions

"Active" management: Stock selection, market timing, or other techniques used in an effort to "beat the market". In contrast, "passive" managers create portfolios representing a whole market or an "optimized" combination of markets. For example, a mutual fund that owns the same stocks in the same proportions as the S&P 500 Stock Index is a passively-managed "index" (or "market") fund. TAM's style of passive management involves diversifying among many low-correlating markets with the goal of outperforming 75% of active managers with less risk.

Index funds: see above

The Prudent Investor Rule: The Restatement of the Law Third: Trusts, published by the American Law Institute. The Restatement is a guide for practitioners of law, trustees, and investment advisors as well as a source of legal authority. It was revised in 1990 after 30 years with the objective of modernizing trust investment law.

Recommended Reading:

Restatement of the Law Third: Trusts (The Prudent Investor Rule), The American Law Institute, 1992

Investment Policy, Second Edition, Charles D. Ellis, 1993

Recent articles:

"In Fund Results, 2+2 Can Equal 3 or 5", The Wall Street Journal, 4/5/93

"Pay Now or Pain Later: If We Don't Invest Better, a Retirement Crisis Looms", Barron's, 4/26/93

"Fuller Plates, Better Odds: Pension Plans Spice Up Their Investment Menus", Barron's, 4/26/93

"Foreign Index Funds Are Long-Term Bet", The Wall Street Journal, 6/24/93

"Why It Pays to 'Rebalance' Your Portfolio", The Wall Street Journal,

"Discordant Investments Can Sing With Sharp Returns", The Wall Street Journal, 7/6/93