



Index Fund Strategies

ASSET CLASS[®]

A monthly update of asset class performance, trends, & topics for long-term investors

Index Returns

| | 1998 | 1999 | 2000 | Last 8 yrs. | 4/12 2001 |
|---------------------|-------|------|-------|-------------|-----------|
| Bonds | | | | | |
| Short-term | 5.7 | 4.6 | 6.7 | 5.5 | 1.8 |
| Intermediate | 10.5 | -3.6 | 13.5 | 6.9 | 2.3 |
| Long-term | 12.0 | -7.9 | 16.6 | 8.5 | 1.4 |
| S-T Global | 8.4 | 3.7 | 6.7 | 7.5 | 1.9 |
| U.S. stocks | | | | | |
| Large Market | 28.7 | 20.8 | -9.1 | 17.0 | -10.1 |
| Large Value | 12.0 | 4.8 | 10.2 | 15.5 | 1.7 |
| Small Market | -7.3 | 29.8 | -3.6 | 13.8 | 0.2 |
| Small Value | -7.3 | 13.1 | 9.0 | 14.8 | 4.6 |
| Real estate | -15.4 | -2.0 | 28.4 | 9.2 | -2.4 |
| Int'l stocks | | | | | |
| Large Market | 18.2 | 28.5 | -14.0 | 10.3 | -10.6 |
| Large Value | 14.9 | 16.3 | -0.2 | 12.1 | -6.6 |
| Small Market | 8.2 | 21.9 | -5.4 | 4.9 | -2.2 |
| Small Value | 5.3 | 19.0 | -3.1 | 4.7 | 2.2 |
| Emerg. Mkts. | -9.4 | 71.7 | -29.2 | 6.6 | -9.1 |

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 |
| S-T Global bonds | DFA Five-Year Global Fixed |
| U.S. Large Market | Vanguard Index 500 fund |
| U.S. Large Value | DFA Large Cap Value fund |
| U.S. Small Market | DFA US 9-10 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 8 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.

This newsletter is published by
TAM Asset Management, Inc.
601 California St. Suite 701
San Francisco, CA 94108
phone: 415-951-1937
Efax: 781-623-4691
email: trout@tamasset.com
Web Site: www.tamasset.com

Editor: **Jeffrey C. Troutner**

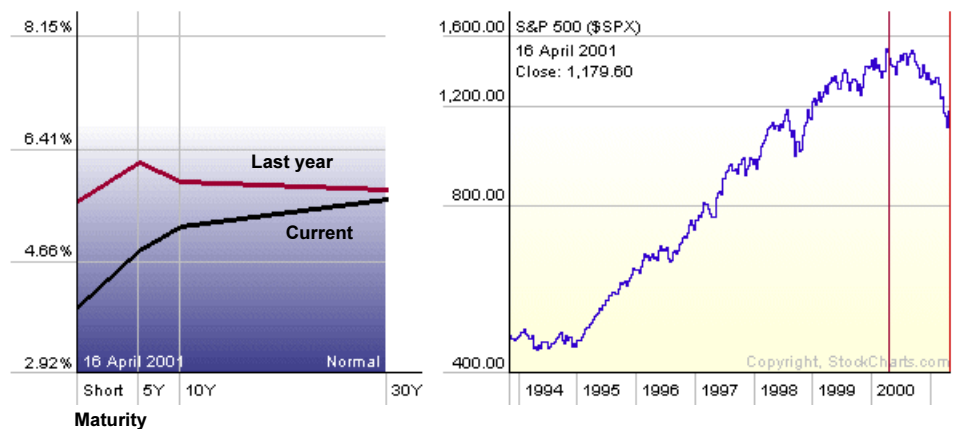
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Markets Update Tuesday, April 17, 2001

Most of the equity asset class returns have improved since the last *Asset Class* newsletter, but uncertainty and volatility remain high in the financial markets. Small cap and value stocks continue to outperform large company growth stocks, while the international markets continue to provide very little diversification benefit.

Interest rates on long-term bonds have risen slightly since year-end. For those interested, StockCharts.com has an interactive "Yield Curve" page that show the relationship of short- and long-term interest rates today, as well as an interesting animated chart showing changes through time. The web address is <http://www.stockcharts.com/charts/YieldCurve.html>. Below is a chart for the site showing the interest rate changes over the past year.

Dynamic Yield Curve



How Quickly Things Change

Jeff Troutner, TAM Asset Management

The steep decline in growth stock prices the past year has taken many investors by surprise. Not just for its suddenness, but also for its depth and its affect on annual returns "accumulated" over the past few years. The table on the back shows the 3- and 5-year annual returns through the end of this past quarter for a number of indexes and index funds. After huge stock market gains in 1998, 1999, and the first quarter of 2000, I'm sure these returns will surprise a lot of people.

The 5-year returns continue to benefit from the strong 1996 and 1997 years, but even those have fallen from levels closer to 30% for large U.S. growth stocks for the period 1995-1999.

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These kinds of periods reinforce the old cliché that “the bigger they are the harder they fall” and remind us that many years of very high returns can be trimmed very quickly by a short, steep market decline. For example, an investment that grows 30% per year for five years produces a total return of over 270%. If that investment declines by 30% the next year, the total return doesn't fall to 240% (270% -30%), it drops to 160% and the annual return falls from 30% to 17.25%. Another 30% decline drops the annual return for the total period to under 9%. So, two years of -30% returns brings five years of + 30% returns back to earth before you know it.

Note also that the DFA US Large Value fund has moved ahead of the S&P 500 and Wilshire 5000 indexes over the 3-year period and ahead of the latter for 5 years. The DFA Small Value fund is slightly behind the S&P 500 for 3 years and ahead of the Wilshire index for 5 years.

| <u>Fund, Index, or Average Fund</u> | <u>3-Year Return*</u> | <u>5Year Return*</u> |
|--|-----------------------|----------------------|
| DFA Five-Yr. Global Bond fund | 6.1% | 7.8% |
| S&P 100 Index | 5.0% | 15.4% |
| S&P/Barra Large Value Index | 4.7% | 13.8% |
| Vanguard Value Index Fund (Large) | 4.7% | 13.7% |
| DFA US Large Value Fund | 4.2% | 13.4% |
| Russell 1000 Value Index (Large) | 3.9% | 14.2% |
| Ave. US Large Growth Fund | 3.3% | 11.6% |
| S&P 500 Index | 3.1% | 14.2% |
| DFA US Small Value Fund (6-10) | 2.9% | 13.0% |
| Ave. US Large Value Fund | 2.4% | 11.6% |
| Ave. US Small Growth Fund | 2.3% | 8.2% |
| Ave. US Small "Blend" Fund | 2.3% | 10.8% |
| DFA US Small Co. Fund (6-10) | 2.1% | 10.2% |
| Ave. US Large "Blend" Fund | 1.8% | 11.8% |
| Russell 200 Value Index (Small) | 1.8% | 11.9% |
| Vanguard Int'l Growth (active fund) | 1.8% | 6.2% |
| DFA US Micro Cap Fund (9-10) | 1.7% | 9.7% |
| Wilshire 5000 Total Mkt. Index | 1.7% | 12.4% |
| S&P/Barra Small Value Index | 1.7% | 13.8% |
| Ave. World Stock Fund | 1.2% | 7.7% |
| DFA Int'l Large Value Fund | 1.1% | 4.3% |
| Ave. US Small Value Fund | 0.8% | 11.2% |
| Ave. Foreign Stock Fund | 0.5% | 5.5% |
| Vanguard Growth Index Fund (Large) | 0.4% | 13.7% |
| NASDAQ Composite Index | 0.1% | 10.8% |
| DFA Int'l Large Cap Fund | 0.0% | 4.6% |
| Vanguard Int'l Value (active fund) | 0.0% | 3.7% |
| DFA Int'l Small Value Fund | -0.2% | -2.2% |
| DFA Int'l Small Co. Fund | -0.5% | 0.0% |
| DFA Emerging Markets Fund | -3.7% | 3.8% |
| Russell 2000 Growth (Small) Index | -5.2% | 2.5% |
| Vanguard Emerging Markets | -6.3% | -5.2% |
| MSCI Emerging Mkts. Index | -8.4% | -7.0% |

*annualized

Source: Morningstar Principia Pro

More Evidence Against Market Timing

Our friends in the research department at Dimensional Fund Advisors have provided us with further evidence of the risk of market timing by looking back at the volatility of the S&P 500 over the past three years. As the table below shows, investors did not have to be in or out of the market for very long to dramatically alter their returns. These numbers show that a limited number big up or downs day can have a huge impact on total returns.

| | | Opportunity Return² |
|---|--------------|---------------------------------------|
| 1998 Returns¹ | | |
| S&P 500 | 28.6% | |
| S&P 500 minus best 10 days | -4.0% | 32.6% |
| S&P 500 minus worst 10 days | 64.4% | -35.8% |
| 1999 Returns¹ | | |
| S&P 500 | 21.0% | |
| S&P 500 minus best 10 days | -5.3% | 26.4% |
| S&P 500 minus worst 10 days | 45.3% | -24.3% |
| 2000 Returns¹ | | |
| S&P 500 | -9.1% | |
| S&P 500 minus best 10 days | -40.5% | 31.4% |
| S&P 500 minus worst 10 days | 20.8% | -29.9% |
| S&P 500 Total Return 1998-2000 | 41.5% | |

¹ Assuming receipt of all dividends

² Opportunity return is the cumulative performance of the removed days.

Source: DFA & Yahoo Finance

New TAM Logo? I think I'll Pass.

Have you ever wondered why TAM does not have a corporate logo? TAM, as you may know, was named after Mt. Tamalpais (Mt. Tam). Mt. Tam is the 2,600 foot landmark you see as you cross north over the Golden Gate Bridge and is the place where mountain biking was born. I have always wanted a mountain motif as a logo, but could never come up with one I liked. I also knew that a bad design could send the wrong message. This hit home recently as I reviewed recent market returns. The graphic below is an uncanny likeness of Mt. Tam. Unfortunately, it's also the performance of the NASDAQ Composite index over the past three years.

