TAM Asset Management, Inc. REVIEW

Diversified, indexed investment strategies for long-term investors, retirement plans, and trust fiduciaries

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Students of stock market history know that after major rises in U.S. stock prices—most recently 1972, 1987, and today—there is the temptation to believe that we have entered a new era, one in which U.S. businesses grow at unusually high rates and, perhaps, dominate international economics. It certainly seems to be true today. If it is true, even long-term investors would be wise to shift a substantial portion of their portfolios into U.S. stocks and away from international stocks.

But market observers also know that when things seem most obvious, the opposite usually occurs. And since these most optimistic expectations are built into stock prices already, it is not surprising in hindsight when markets drop.

There have also been years like this one when U.S. and international markets have been significantly out of sync. Most recently, 1993 saw the U.S. market up only 10% while international large and small stocks were up over 30% and international large value stocks rose almost 50%!

This newsletter is published by TAM Asset Management, Inc.
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Comments, questions, or suggestions are always welcome. For more information on our investment management services, please call 1-800-826-4015.

U.S. Stocks Continue to Soar

By Jeff Troutner

Stock prices have surged through the 5,000 level of the Dow Jones Industrial Average as investors continue to buy at higher and higher levels. The S&P 500 is already up 35% through November and the market appears to have the momentum to move even higher.

If you ask a hundred "experts" what is fueling this rise you will probably get a hundred different answers. My opinion isn't any better or worse than anyone else's, but here it is anyway (for the value of manager "stories" see the next article):

After a pretty sorry showing last year, U.S. stocks moved a couple of hundred Dow points higher during the first few of months of this year. At that point, stock prices appeared fairly valued and most money managers were looking for flat to even slightly declining markets for the rest of the year. Then the technology bug hit. All of the sudden Bill Gates starts talking about the endless possibility of the Internet (coinciding nicely with the introduction of his new operating software bundled with Internet software) and the horses were off and running. The U.S. was transformed overnight into an unbeatable techno-monster whose multi-national firms are going to dominate world economics for the next few decades (at least). Stocks prices started a gradual and persistent move higher over the summer and into the fall. What we are seeing now, I believe, are the last of the bears (mostly humbled money managers) jumping on the bandwagon and pushing the market into the stratosphere.

What happens from here on out is anyone's guess. The U.S. market could continue higher. It could also flatten out and then go into a gradual decline with money shifting to the undervalued markets in Japan and Europe (that's fine with us). Or a major unforeseen event of some sort could give investors a reason to sell U.S. stocks in a major way, with some of the money shifting to other world markets (that's also fine with us). One thing unique to this market environment is the fact that the crash of 1987 and, more importantly, *the rebound* occurred not too many years ago. Investors now believe that any major decline is a serious buying opportunity—which might explain the incredible buoyancy of this market.

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U.S. Stocks...(cont.)

TAM portfolios have benefited by the move as shown in Table 1. In line with foreign markets generally, our international funds have not kept pace with the U.S. funds (Table 2). Someone looking at these numbers with a "marketing timing" mentality would be tempted to sell a large portion of their U.S. allocation and move into foreign stocks, particularly in Japan. But the same conclusion was reached by many market timers after the first two months of this year. A better move would be to diversify a U.S.-only portfolio among some foreign assets classes like we have with TAM portfolios.

I think it is interesting to note that for the 2 3/4 years December 31, 1992 to September 30, 1995 an all-stock, globally-diversified TAM portfolio has outperformed the U.S.-only S&P 500 index. It has only been since the end of October that an all-U.S. portfolio moved ahead. Considering that the U.S. market has gone nearly straight up by 34% this year and international markets have stayed flat to down, where would you rather be for the next 2 3/4 years, all U.S. or internationally diversified?

Table 1

TAM U.S. Stock Funds 1995 Y-T-D Through 11/24

Fund	Return
DFA U.S. Large Value	**36.5%**
S&P 500	33.7%
Vanguard Index 500	**33.5%**
DFA 9-10 Small Co.	**29.8%**
DFA U.S. Small Value	**26.0%**

Table 2

TAM International Stock Funds 1995 Y-T-D Through 11/24

Fund	Return
Vanguard Index Europe	**20.2%**
DFA U.K. Small Co.	**11.7%**
DFA Int'l Large Value	**6.1%**
EAFE Index	5.2%
DFA Cont. Europe Small	**0.7%**
DFA Emerging Markets	**-2.2%**
Vanguard Index Pacific	**-4.6%**
DFA Pac. Rim Small	**-5.2%**
DFA Japanese Small	**-12.0%**

Some Things ~~Never~~ Are Slow To Change

By Jeff Troutner

One of my contacts at Dimensional Fund Advisors sent me a copy of an article from Fortune magazine entitled *Index Funds: An Idea Whose Time Is Coming*. The article is interesting for two reasons: 1) it was written in 1976, and 2) the very same question was being asked then as it is today, namely, why would anyone—in view of so much data supporting modern portfolio theory and efficient markets—continue to hire active managers to pick stocks or time markets?

After its birth in the mid-50s, why has it taken another 20 years since the Fortune article for indexing to reach the general investing public? And why haven't institutional investors—arguably more educated and experienced, with greater access to important research—embraced indexing more aggressively?

I think the answer is simple: People view most investing, particularly stock investing, as a big mystery. Where is the market going? Why? How far will it go? Which stocks do I buy? When do I sell? Which mutual fund (manager) is the

Continued on next page...

Some Things...(cont.)

"best"? There are thousands of answers (opinions) to these questions depending on *who you ask*. Every broker, advisor, analyst, financial writer, and brother-in-law has an opinion on investing.

Michael C. Jensen, the author of a definitive study of mutual fund performance in the mid-Sixties, had an interesting perspective he called "the religious theory of the demand for security analysis." In the Fortune article they write (my changes in parentheses):

> He (Jensen) suggests that investors have a very low tolerance for mysteries—they are uncomfortable not knowing where the prices of their stocks are going. And so they hire people who write stories explaining the market, much as other credulous individuals try to reduce the amount of mystery in their lives by turning to astrologers and gurus.
>
> The analysts' (money managers) stories make the investor feel more comfortable and so they keep on buying the stories, even though they're wrong as often as right. The investors chalk up the stories that are "right" to wisdom and the others to unforeseen changes in the "market climate" or "earnings picture." When an analyst (money manager) is wrong too many times, Jensen observes, his customers do not abandon analysis (active management). They just hire another guru.

What we try to convey to investors is that if your view is long-term there is no mystery. Stocks go up. Small company and value stocks have higher risk so they should produce higher returns (if you don't believe this, start your own bank and lend money to large, small, and financially weak companies at the same rate). Now, active managers can complicate these facts with all kinds of different "proprietary" strategies in order to derive high fees. And since investors tend to rotate advisors like they do tires there is never a lack of new clients *if you have a good story*.

Which brings us to an interesting question. Almost every week I am asked the same thing, "If indexing makes so much sense and if investing is so easy, why do I need an advisor at all?" Let's put it this way. Imagine that you are on a football field, holding the ball, and facing a herd of 300-pound defensive players. They want to convince you that you cannot avoid them to reach your goal. Can you get to the end-zone on your own or do you need some blocking? What happens when you get tackled a few times? Will you remember the plays? Would you rather have the best players on your team or would you settle for mediocre ones? Are you willing to punt sometimes and wait for the momentum to shift back your way?

Indexing does make sense. It's the implementation and stick-to-itness that can get a little rough.

We're On The World Wide Web!

The interesting thing about the Internet and World Wide Web is that no one really knows where it's going or in how many ways it will be used. All I know at this point is that it is a great source of information and, therefore, a great source to *provide* information.

As our clients know, taking the mystery out of investing and building a level of knowledge and confidence that will result in superior returns and a long-term advisory relationship are primary goals of ours. To that end, we have created a site on the Web that will start with basic information on our services and the benefits of indexing, and grow to include copies of our newsletter, research papers, articles, fund profiles, and other files that an investor can download and print from any computer.

Eventually, we will include links to other sites (DFA will create one soon, we hope) so that investors can move quickly between different sources of information on asset class investing.

You can access the Web through services like American Online, or you can obtain direct Internet access through a provider in your area. The cost is usually $25 or less per month. I recommend the Netscape 2.0 "browser" software and a 28.8 modem.

Our address on the Web is **http://www.strategix.com/tam**. Our e-mail address is **trout@linex.com.** All ideas, comments, criticisms, and questions are welcome!! Please leave an e-mail message or call me at 1-800-826-4015.

Performance Notes:

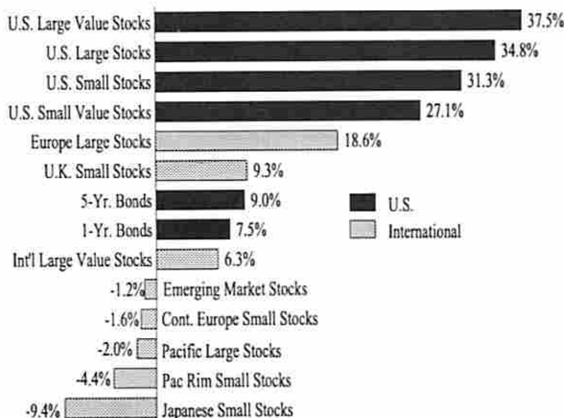
Asset Class Returns: 1-Yr. Bonds = DFA One-Year Fixed Income Portfolio; 5-Yr. Bonds = DFA Five-Year Government Portfolio; U.S. Large Stocks = Vanguard 500 Index Fund; U.S. Large Value Stocks = DFA Large Cap Value Portfolio; U.S. Small Stocks = DFA 9-10 Small Company Portfolio; U.S. Small Value Stocks = DFA Small Cap Value Portfolio; Pacific Large Stocks = Vanguard Pacific Index Fund; Europe Large Stocks = Vanguard Europe Index Fund; International Large Value Stocks = DFA Large Cap International Portfolio; Japanese Small Stocks = DFA Japanese Small Company Portfolio; Cont. Europe Small Stocks = DFA Continental Small Company Portfolio; U. K. Small Stocks = DFA United Kingdom Small Company Portfolio; Pac Rim Small Stocks = DFA Pacific Rim Small Company Portfolio; Emerging Market Stocks = DFA Emerging Markets Portfolio.

TAM Portfolio Returns Net of Fees: These are the actual returns of TAM portfolios in each risk category net of actual TAM management fees, custodial fees, and fund expenses. The "Growth" returns were calculated using a model portfolio from 12/31/92 to 4/30/93 and actual accounts thereafter. The "Aggressive" returns were calculated using a model portfolio from 12/31/92 to 3/31/93 and actual accounts thereafter. In both cases, the maximum TAM fee was deducted, representative custodial costs were deducted, and all mutual fund returns are net of expenses. The "Moderate" returns were calculated using actual account performance since inception. Past performance is no guarantee of future returns. This is especially the case with model portfolios which are not subject to specific economic or market factors.

Benchmarks: Balanced Fund & Capital Appreciation Fund Indexes: Lipper Analytical's indexes representing the 30 largest balanced mutual funds and 30 largest capital appreciation mutual funds in the country.

Asset Class Returns

Year-to-Date Through 11/30/95



TAM Portfolio Returns

Through 11/30/95

Risk (% stocks)		YTD 1995	1994	1993	Since Inception 12/92-11/95
Aggressive	(95%)	+12.1%	+5.3%	+21.1%	+42.9%
Growth	(85%)	+13.3%	+2.6%	+16.6%	+35.3%
Moderate	(65%)	+12.4%	+2.1%	+14.0%	+30.9%
Benchmarks					
Balanced Fund Index		+22.9%	-2.2%	+11.7%	+34.2%
Capital Apprec. Index		+30.1%	-2.5%	+14.8%	+45.7%
S&P 500 Stock Index		+34.9%	+1.3%	+10.1%	+50.4%
Lehman G/C Bond Index		+16.7%	-3.5%	+11.0%	+25.0%
Morgan Stanley EAFE Index		+6.9%*	+8.0%	+32.9%	+53.4%*

*estimate

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