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.

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

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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.
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.

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P 500</th>
<th>S&amp;P 500 minus best 10 days</th>
<th>S&amp;P 500 minus worst 10 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>28.6%</td>
<td>-4.0%</td>
<td>32.6%</td>
</tr>
<tr>
<td>1999</td>
<td>21.0%</td>
<td>-5.3%</td>
<td>26.4%</td>
</tr>
<tr>
<td>2000</td>
<td>20.8%</td>
<td>-40.5%</td>
<td>31.4%</td>
</tr>
</tbody>
</table>


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.