



# Index Fund Strategies ASSET CLASS<sup>®</sup>

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

## Asset Class Returns

	1999	2000	2001	Last 9 yrs.	11/21 2002
<b>Bonds</b>					
Short-term	4.6	6.7	5.8	5.5	3.3
5-Y Global	3.7	6.7	5.9	7.3	8.0
Intermediate	-3.6	13.5	8.2	7.1	11.8
Long-term	-7.9	16.6	8.2	8.1	10.2
<b>U.S. stocks</b>					
Large Market	20.8	-9.3	-12.1	13.3	-17.6
Large Value	4.8	10.2	3.8	14.1	-12.6
Small Micro	29.8	-3.6	22.8	14.8	-11.9
Small Market	25.4	2.5	12.7	12.6	-16.4
Small Value	13.1	9.0	22.7	15.6	-8.5
Real estate	-2.0	28.4	13.2	9.6	1.8
<b>Int'l stocks</b>					
Large Market	28.5	-14.0	-20.8	6.3	-12.7
Large Value	16.3	-0.2	-15.3	8.6	-8.3
Small Market	21.9	-5.4	-10.5	3.1	-1.1
Small Value	19.0	-3.1	-4.6	3.6	2.3
Emerg. Mkts.	71.7	-29.2	-6.8	5.1	-6.9

### Descriptions of Indexes

Short-term bonds	DFA One-Year Fixed Income fund
5-Y Global bonds	DFA Five-Year Global Fixed
Intermediate bonds	DFA Intermed. Gov't Bond fund
Long-term bonds	Vanguard Long-term Bond Index
U.S. Large Market	DFA US Large Co. (S&P 500)
U.S. Large Value	DFA Large Cap Value fund
U.S. Small Micro	DFA US 9-10 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 9 yrs." returns are ended 12/31/01 and 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 November 22, 2002

October was a welcome relief from the price slide since May, but it will take a lot more months like that to restore investor confidence in the markets. In the meantime, stocks remain "on sale" for far-sighted investors.

S&P 500 INDEX  
as of 22-Nov-2002



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## Odds & Ends...

Jeff Troutner, TAM Asset Management, Inc.

### Bond Buyers Beware

I understand that the big shots at The Vanguard Group have been reading my newsletters and found my warning about shifting from stocks to bonds in my "Ten Stupid Things" articles to be particularly timely and prescient.

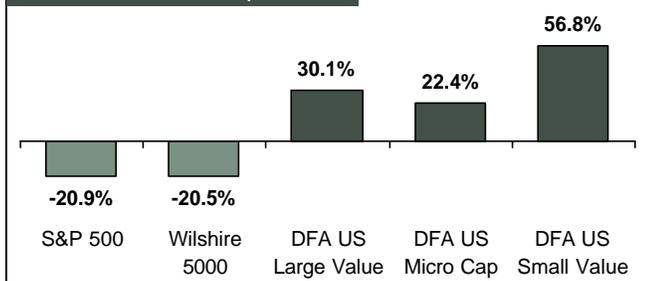
Actually, I think they just noticed the huge inflows of new cash to their bond funds. In any case, they issued a press release titled, "Vanguard Warns Investors About Bond Fund Risks" ([www.vanguard.com](http://www.vanguard.com), click on "Press Room"). I strongly encourage anyone who is still not clear on this topic to read this article, especially since they point out that the results of a recent test they conducted show that 70% of the respondents did not understand that bond prices fall when interest rates rise.

### "Should We Fear a Total U.S. Market Collapse?"

I asked this question in the January 27, 2000 *Asset Class* newsletter and offered some tables and charts to suggest that the answer was No. Well, I was feeling pretty smug through April of this year (see Chart 1) and was waiting anxiously by my phone for calls from *The Wall Street Journal*, *Barron's*, and *Money* magazine. I thought I might become the next Elaine Garzerelli or Bob Brinker (the latest market timing guru). But I guess a newsletter circulation of a couple of hundred of my closest friends and clients isn't enough to get noticed by the big boys. That's alright. About the time they would have been calling, the markets did their best to try to put

continued on back...

Chart 1: Feb. 2000 - April 2002

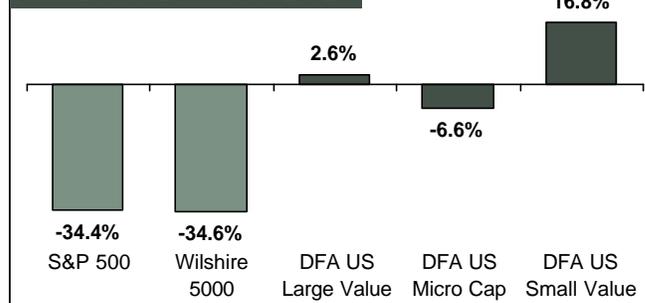


me in my place. May through September of this year was pretty brutal for *all* of the asset classes and the recent October rally was concentrated mostly in the battered “large growth” area.

Overall, however, my prediction (it was actually a well-thought-out analysis of prices, valuations, and prior trends explained in a concise and efficient presentation of relevant data...or something like that) has turned out to be pretty accurate as shown in Chart 2. It remains to

be seen whether the bear market has run its course, but so far I think it’s clear that asset class diversification is a wise long-term strategy.

Chart 2: Feb. 2000 - Oct. 2002



By the way, it looks like the extra diversification that those “Total Market” index funds (Wilshire 5000) were supposed to provide over the S&P 500 didn’t work out too well. Moral? Don’t take shortcuts when it comes to your serious money.

## Annuities 101: How to Sell to Senior Citizens

This was the title of another excellent article by Ellen Schultz of *The Wall Street Journal* (Schultz’s and Jonathan Clements’ columns are the closest things to fact-based truth you will find in a mainstream financial publication).

In the article, Schultz describes a training program in Denver for annuity salespeople called “Annuity University”. Some of the most notable quotes:

*“Treat them like they’re blind 12-year olds.”*

*“They buy based upon emotions! Emotions of fear, anger and greed.”*

*“Tell them it’s like a CD—it’s safe, it’s guaranteed.”*

*“The best way to attract them is a free meal. They like freebies and they like to eat one major meal a day.”*

Just what you would want your mother, father, or grandparents to be subjected to, right? Unfortunately, it’s happening every day over the phone, across the kitchen table, and even at the slick Merrill Lynch and Smith Barney offices.

And if it’s not fixed annuities, it’s bond funds with longer maturities promising higher yields—in an interest rate environment at near record lows. When rates rise, the value of these funds will plunge.

Want to do a good deed? Tell every older friend or relative you know on a fixed income to avoid locking into any fixed annuity or higher yielding bond fund. When interest rates rise again—and they will—they will thank you. In the meantime, tell them to just keep rolling over those 6-month CDs and be thankful that inflation is under control.

## The Periodic Table of Asset Class Returns (from highest to lowest)

The table below is a colorful way to illustrate the value of asset class diversification. See a pattern? Neither do we. Diversify.

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
U.S. Large Co.	37.66	44.22	21.85	67.29	70.16	70.55	33.48	31.49	9.09	49.01	29.86	47.17	12.42	38.36	33.84	33.07	28.67	29.79	28.38	22.77
Small Cap	28.79	39.67	12.02	60.11	69.43	31.22	28.84	29.34	-3.17	44.63	28.30	33.49	8.84	37.08	22.62	30.75	18.21	28.50	10.21	22.63
Micro Cap	28.44	32.40	11.17	56.17	50.10	24.64	28.30	25.52	-15.61	40.28	26.29	25.85	5.30	34.46	22.32	28.13	14.87	25.41	9.01	13.17
Large Cap Value	28.27	31.47	10.08	34.73	24.79	6.74	26.83	24.69	-15.97	39.37	23.35	25.77	3.11	30.18	20.22	24.23	11.98	21.87	6.72	12.68
Small Cap Value	23.92	30.89	7.60	32.17	18.47	6.42	26.01	19.69	-16.77	34.35	19.80	20.98	2.46	29.29	17.67	22.78	8.20	20.78	2.45	5.75
Real Estate	21.41	29.90	7.39	31.37	18.39	5.23	23.66	16.32	-20.17	30.12	7.31	20.35	1.29	13.05	17.62	19.37	5.68	16.29	-0.18	3.85
Intl. Large Co.	16.80	29.55	6.27	29.87	16.86	-6.10	22.87	10.54	-20.81	15.94	5.19	15.46	1.21	12.07	7.81	5.99	-5.54	13.04	-3.59	-10.51
Intl. Small Co.	2.53	23.69	5.08	24.66	8.92	-6.30	16.81	10.19	-21.56	12.28	-3.11	13.66	-1.34	11.49	6.34	5.51	-7.28	4.80	-5.42	-12.07
Intl. Value	0.82	22.51	-5.54	11.85	7.13	-9.05	14.52	9.60	-22.08	8.73	-13.14	9.61	-4.54	7.97	5.78	-3.14	-7.31	4.59	-9.25	-15.25
1 Yr. Fixed Income	-1.85	9.77	-6.67	10.52	6.85	-9.30	7.40	6.73	-23.44	7.05	-18.37	4.41	-8.39	0.48	2.56	-23.72	-15.38	-1.98	-14.00	-20.83

Returns are for corresponding DFA funds with index returns used prior to inception. Full description of data is available on request. Source: Dimensional Fund Advisors.