TAM Asset Management, Inc.

Asset Class℠

An update of performance, trends, research, & topics for long-term investors

May 14, 2004

Asset Class Returns

	2001	2002	2003	Last 10 yrs.	4/30 2004
Bonds					
Short-term	5.8	3.9	1.6	5.0	0.2
Five-Year	5.9	10.4	3.0	6.8	-0.2
Intermediate	8.2	15.0	2.5	6.9	-0.3
Long-term	4.3	16.7	2.7	7.7	-0.6
U.S. stocks					
Large Market	-12.1	-22.2	28.5	10.9	0.0
Large Value	3.9	-14.9	34.4	12.1	2.1
Small Micro	22.8	-13.3	60.7	14.8	2.1
Small Market	12.7	-19.1	51.5	12.2	1.5
Small Value	22.6	-9.3	59.4	15.6	3.5
Real estate	13.2	4.2	35.6	10.8	-4.1
Int'l stocks					
Large Market	-20.8	-14.6	36.7	4.9	1.1
Large Value	-15.3	-8.5	49.4	7.0	4.0
Small Market	-10.5	1.9	58.8	4.8	9.7
Small Value	-4.6	5.8	66.5	6.1	9.9
Emerg. Mkts.	-6.8	-9.4	60.2	2.3	0.2

Descriptions of Indexes

Short-term bonds	DFA One-Year Fixed Income fund
Five-Year bonds	DFA Five-Year Global Fixed
Intermediate bonds	DFA Intermed. Gov't Bond fund
Long-term bonds	Vanguard Long-term U.S.Treas.
U.S. Large Market	DFA US Large Co. fund
U.S. Large Value	DFA Large Cap Value fund
U.S. Small Micro	DFA US Micro Cap fund
U.S. Small Market	DFA US Small Cap fund
U.S. Small Value	DFA US Small Value fund
Real Estate	DFA Real Estate Securities fund
Int'l Large Market	DFA Large Cap Int'l fund
Int'l Large Value	DFA Int'l 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 10 yrs." returns are ended 12/31/02 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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Are These The Good Old Days?

Philip W. Jonckheer, President, Dynamic Funds Management, Inc.

Since our last *Asset Class* was published, we have been reflecting on a key ingredient in building Financial Independence: developing the leisure and spirit part of our selves and our lives. Our initial research reveals that we tend to think of the best of times as having occurred in the past; hence, the "good old days". Is it really true that times were better in days gone by?

A study of people aged twenty to eighty administered by American Demographics asked, "What was the best decade in American history?" No matter what their age, respondents chose the decade when they were fifteen to twenty-five years old. For example, if someone was twenty in 1930, she would say, "The thirties was the best decade"; someone age twenty in 1950 would say "the fifties". This study suggests that it is not the general events, but something more personal that determines an individual's experience of the good old days. In other words, although there are positive and negative aspects of every era, it is our attitude that affects how we feel about the times.

In a separate yet related piece of research, we found that a bright outlook is correlated with economic growth. In his 1936 book *The General Theory of Employment, Interest, and Money*, John Maynard Keynes stated that economic growth requires "spontaneous optimism". Adam Smith, another economist, expressed a similar view in 1755 when he wrote, "Little else is required to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural cause of things." Both men imply that when the basics are handled, a positive force occurs that allows the economy or the state to go forward. Is this perhaps why people selected the time when they were fifteen to twenty-five as their "best decade"? That period in a person's life might be when the basics are handled and "spontaneous optimism" prevails.

Why in our current era do we have the economic growth but not the pervasive mood of optimism or opulence associated with it? As we have mentioned in previous updates, less-than-rosy predictions continue despite the economy's strong performance. For instance, household wealth in 2003 was calculated to be the highest it's ever been. In addition, the latest figures from the Commerce Department report a 4.2% growth rate in Gross Domestic Product for the first quarter of 2004. Factory activity in April continued to surge and recent filings for jobless benefits plummeted. Productivity (a measure of worker output per hour of work) rose last quarter. Again. Yet the prevailing attitude — not only of economists, but also across the country more broadly - is not correspondingly hopeful.

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In an effort to explain this anomaly, I spoke with Sheira Kahn, a consultant on Financial Independence. We found that the reasons for a "down" mood are difficult to identify. Is it the pall of war and terror? A lack of faith in the future? Fear of environmental destruction? The pace of life?

Ms. Kahn observes, "There's a lot going on in the world right now that is out of people's control, and may be contributing to a downcast mood. In a sense, that is often the case in life. But where we do have power is in taking charge of our attitudes in the face of whatever is happening, and this can greatly improve a person's outlook or mood.

"To take more charge, I recommend discerning what is and is not true, both internally and externally. This often results in a person feeling more energized and motivated - about negative as well as positive things. For instance, if there is a concern that a person is not addressing, she will feel better if she pays attention and takes action on it. By the same token, if there are positive aspects of a person's life of which she is not fully aware, she might be missing out on how good things really are. Overall, the process of taking stock results in being more connected to one's own convictions and feelings. This engagement and the increased authenticity in turn build one's sense of Financial Independence."

While it is outside the scope of this article to speculate on what is or is not true regarding the global situation, some statistics about modern life have come to our attention that may be pertinent to the process of taking stock. W. Michael Cox, an economist at the Federal Reserve Bank, has made the observation that in general, using the average wage per hour, today it costs significantly less time to pay for the expenditures of life in the U.S. than it used to. He bases this observation on research into the cost of certain daily activities relative to earnings. For instance, it took twenty-four minutes of work to pay the cost of a three-minute, coast-to-coast phone call in 1970. Today, it takes 36 seconds (of work). Similarly, a color TV cost 174 hours of work in 1970 whereas today, fifteen hours of work will pay for it.

In addition, technological advances permit us to have more leisure time in general. In 1973, U.S. workers were given 15.5 days of vacation days and time off. In 2003, the number was 22.5 days. The typical employee currently spends less than a third of all waking hours working - at home and on the job combined. Studies of spending patterns, furthermore, indicate that U.S. citizens are increasing the time they spend on recreational activities and products.

This increase in leisure time can also be seen through the lens of American labor history. When American Indians and the first immigrants lived in this country, nearly all household goods, including food, were produced by the individuals who consumed them. At that time, a market economy did not exist. During the Colonial era, an agrarian-based economy developed, ushering in a market economy based on specialization, i.e., food was produced by specialists—farmers—who sold it to non-farmers. Specialization increased further during the Industrial Age, when workers in factories manufactured still more goods that were consumed by others. With the advent of computers in the 1940s, another era began: The Information Age. Then, specialization became even more prominent as those creating information bought more and more of what they consumed instead of making it themselves.

Advances in each era enabled the goods produced to become commodities. Ironically, once the goods became commodities, the era ended and a new one took form. For instance, the Agrarian age ended and the Industrial Age began when machinery allowed farmers to grow food inexpensively, causing food prices to drop. Today, information (or data) is similarly becoming less expensive. In fact, it is being given away. This drop in the price of information signals the end of the Information Age and the beginning of an age that is beyond information. Albert Einstein said, "Imagination is greater than knowledge." Could the next era be "The Imagination Age"?

While things are occurring in the world that are cause for concern, there are, simultaneously, advances that may permit us to participate in an Imagination Age, especially if we are aware that what is true for us now may not have been true in bygone eras. In other words, with more of the basics being handled and more available leisure time, we may in fact be in an age of Financial Independence for an increasing number of people.

We therefore urge you to take stock of what you have. What do you have to be grateful for? What does modern life afford you that you could not see or experience before? What made your "best decade" great? Are the great aspects still present in your life or have other great things taken their place? It is our hope that if you can identify how the basics are handled and the reasons for being optimistic, you will begin to enter a Financially Independent Age of Imagination.

This article is the first, and hopefully not the last, contribution of the heart and mind of my business partner of the last three years, Phil Jonckheer of Dynamic Funds Management (DFM). Phil asked me in late-2000 to help him guide DFM toward a more well-defined asset class investment strategy along the lines of what I had implemented at TAM.

In the official capacity as DFM's Chief Operating Officer and Director of Research, I have worked with Phil in achieving that goal while also putting in place a "succession" path for clients in the event that either of us become incapacitated. Together, we provide rational, long-term investment advice on over $230 million in client assets.