



Index Fund Strategies

ASSET CLASS

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

Index Returns

	YTD 7/31	% Change From 6/30
Bonds		
Short-term	+3.5%	+0.7%
Intermediate	+5.6%	+3.0%
Long-term	+8.3%	+5.9%
Global	+5.5%	+1.2%
U.S. stocks		
Large Market	+30.1%	+8.0%
Large Value	+27.1%	+10.0%
Small Market	+18.1%	+5.9%
Small Value	+22.5%	+6.0%
Real estate	+8.6%	+2.6%
Int'l stocks		
Large Market	+14.0%	+1.2%
Large Value	+10.7%	+1.4%
Small Market	-0.6%	-4.1%
Small Value	-0.8%	-3.9%
Emerging Mkts.	+13.8%	+0.0%

Short-term bonds = DFA One-Year Fixed Income fund; Intermediate bonds = DFA Intermediate Government Bond fund; Long-term bonds = Vanguard Bond Index Long-term; Global bonds = DFA Global Fixed Income fund; U.S. Large Market = Vanguard Index 500 fund; U.S. Large Value = DFA Large Cap Value fund; U.S. Small Market = DFA 6-10 Small Company fund; U.S. Small Value = DFA Small Cap Value fund; Real Estate = DFA Real Estate Securities fund; Int'l Large Market = DFA International Large Cap fund; Int'l Large Value = DFA International Large Cap Value fund; Int'l Small Market = DFA International Small Company fund; Int'l Small Value = DFA International Small Cap Value fund; and Emerging Markets = DFA Emerging Markets fund.

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

Wednesday, August 6, 1997

Major Markets	Close 7/31	Point change from 6/30	% change from 6/30	% change from 12/31
DJIA	8222.61	+549.82	+7.2%	+27.5%
S&P 500	954.29	+69.15	+7.8%	+28.8%
NASDAQ	1593.81	+151.74	+10.5%	+23.5%
Nikkei 225 (Japan)	20,331.43	-273.53	-1.3%	+5.0%

All figures are without dividends reinvested.

The U. S. market charges on with the largest monthly point move in history in July for the Dow. In percentage terms it ranks 48th best overall.

Investor optimism remains very high as inflation stays in check, earnings are rising, and interest rates continue to fall. Money flow into U.S. stock funds remains very high as a result.

The new tax package should prove to be positive for the economy, but the price appears to be additional complexity. Score one for the lawyers and accountants once again.

U.S. large value stocks gained some on the S&P 500 index in July. For the year they trail by only 3%, yet these stocks can be purchased for half the price relative to earnings than the largest growth stocks leading the index (see "What Does \$743 billion Buy..?" on the back). U.S. small value stocks continue to outpace their growth counterparts.

The international markets as a whole moved up in July, but Japanese stocks continue to struggle. Emerging markets remained unchanged.

Active managers still trail comparable indexes this year on the domestic side and their advantage internationally appears to be due to their underweighting in Japan.

The table below shows the Lipper Mutual Fund Indexes vs. selected indexes since year-end.

Year-to-Date to July 31

S&P 500 Index	30.1%
DFA U.S. Large Value Index	27.1%
Lipper Growth & Income Funds	24.3%
DFA U.S. Small Value Index	22.5%
DFA 6-10 Index	18.1%
Lipper Small Cap Funds	12.2%
DFA International Large Index	14.7%
DFA International Value Index	10.7%
Lipper International Funds	17.6%

Odds & Ends

Will They Ever Get It Right In Washington?

I love a cut in the capital gains tax, expanded IRA rules, and college tax credits as much as the next guy. In fact, maybe more. After all, I'm in the investment business and I have four kids ranging in age from 12 to 17. Come to think of it, I also like the Brady Bill. Otherwise, I might go down to the local gun shop and do something irrational thinking about how I'm going to pay for college over the next zillion years.

But, really. Can't they just give us a nice income tax cut, simplify the tax code and leave it to us how we'll spend the windfall and the extra free time in April? Someone needs to sit down with Bill (or Hillary) and explain that central planning failed miserably in the Soviet Union and trying to change people's behavior using the tax code is counterproductive.

I'm probably not the only one who felt reasonably optimistic that this Republican Congress and Democrat Administration would be different. If this is the kind of legislation we get with a significantly reduced deficit, strong economy, low unemployment, and a soaring stock market, what can we expect when things go the other way?

What Does \$743 billion Buy These Days?

How about all 180 or so companies in the DFA U.S. Large Value Portfolio. These companies have trailing twelve-month earnings of \$45 billion. That same \$743 billion wouldn't quite buy the 5 largest companies in the S&P 500 (GE, Coke, Exxon, Microsoft, and Merck) with combined earnings of about \$26 billion. One hundred eighty companies or five? Forty-five billion dollars in earnings or twenty-five? It's an easy choice in my opinion.

The U.S. Large Value fund's no slouch, either. It includes names like Advanced Micro Devices, Aetna, Ball Corp., Bankers Trust, Bear Stearns, Chrysler, Equitable, Ford, GM, J.P. Morgan, Lincoln National, MCI, Occidental Petroleum, Paine Webber, Transamerica, Unisys, and Whirlpool. Maybe not GE's and Microsoft's, but strong, established companies nevertheless.

Why We Diversify (Part XIV)

The S&P 500 has been hot, no question about it. The DFA U.S. Large Value fund has fallen short by a total of almost 22% since the beginning of 1994. Since 1987, the S&P 500 and U.S. large value stocks have run to a virtual dead heat—16.4% for the S&P versus 16.3% for the large value stocks. But it's been a different story with U.S. small company and international large company stocks. Since 1987, small value stocks have outperformed their growth

counterparts by 3.6% per year (135% overall) and international large value stocks have outperformed the EAFE index by 5.8% per year (177% overall).

In Search Of Gurus

I can always count on Weston Wellington of DFA to remind me of some of the better quotes from the mouths of Wall Street's "best and brightest." Here are a few samples:

"...the stock market has a mysterious 'prime number effect.' ...In years whose two final digits form a prime, the Dow has lost an average of 2%. ...Years in which the full four digits form a prime are even worse, with an average loss of 20.3%. ...1997 is a double whammy, since both 97 and 1997 are prime numbers."

Robin Carpenter, Carpenter Analytical Services, quoted in The Wall Street Journal, Dec. 26, 1996

"In 40 years, I have never seen so many warning flags pointing to stock market excess."

Charles Allmon, Growth Stock Outlook, quoted in Barron's, Nov. 20, 1995

"...nobody is willing to talk openly...that we're already in a bear market."

Richard Russell, publisher of Dow Theory Letters, quoted in The Wall Street Journal, Dec. 12, 1994

"We're going into one of those periods where the market does nothing except consolidate this huge move up we've had. Dow 4,000 is going to be with us a long time."

Seth Glickenhau, senior partner of Glickenhau & Co., quoted in USA TODAY, Dec. 6, 1994

"We're seeing almost every imaginable symptom of a top. The outlook is obvious to anyone with a brain."

Robert Wilson, noted private investor, quoted in USA TODAY, July 19, 1993

And, finally, a recent admission from the top bond guru at Fidelity Investments (the company which, after forty years, has discovered the benefits of indexing):

"Basically, we were guessing on interest rates...What we've come to believe is that no one can guess interest rates."

Fred Henning, head of fixed income investing at Fidelity Investments, quoted in the Los Angeles Times, July 22, 1997.

—Jeff Troutner, TAM Asset Management, Inc.