

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1988–2007) Ranked in Order of Performance

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Russell 2000 Value 29.47%	S&P/Citi 500 Growth 36.40%	LB Agg 8.96%	Russell 2000 Growth 51.18%	Russell 2000 Value 29.15%	MSCI EAFE 32.57%	MSCI EAFE 7.78%	S&P/Citi 500 Growth 38.13%	S&P/Citi 500 Growth 23.97%	S&P/Citi 500 Growth 36.52%	S&P/Citi 500 Growth 42.16%	Russell 2000 Growth 43.09%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	LB Agg 10.26%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%
MSCI EAFE 28.26%	S&P 500 31.69%	S&P/Citi 500 Growth 0.20%	Russell 2000 46.05%	Russell 2000 18.42%	Russell 2000 Value 23.86%	S&P/Citi 500 Growth 3.14%	S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	S&P/Citi 500 Growth 28.25%	LB Agg 11.63%	LB Agg 8.43%	Russell 2000 Value -11.43%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P/Citi 500 Value 5.82%	Russell 2000 Value 23.48%	S&P/Citi 500 Growth 9.13%
Russell 2000 24.89%	S&P/Citi 500 Value 26.13%	S&P 500 -3.11%	Russell 2000 Value 41.70%	S&P/Citi 500 Value 10.52%	Russell 2000 18.89%	S&P 500 1.32%	S&P/Citi 500 Value 36.99%	S&P/Citi 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	MSCI EAFE 26.96%	S&P/Citi 500 Value 6.08%	Russell 2000 2.49%	MSCI EAFE -15.94%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 4.91%	S&P/Citi 500 Value 20.81%	Russell 2000 Growth 7.05%
S&P/Citi 500 Value 21.67%	Russell 2000 Growth 20.16%	S&P/Citi 500 Value -6.85%	S&P/Citi 500 Growth 38.37%	Russell 2000 Growth 7.77%	S&P/Citi 500 Value 18.61%	S&P/Citi 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P/Citi 500 Value 29.98%	S&P/Citi 500 Value 14.69%	Russell 2000 21.26%	Russell 2000 -3.02%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	MSCI EAFE 38.59%	S&P/Citi 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 18.37%	LB Agg 6.97%
Russell 2000 Growth 20.38%	Russell 2000 16.25%	Russell 2000 Growth -17.42%	S&P 500 30.47%	S&P 500 7.62%	Russell 2000 Growth 13.37%	Russell 2000 Value -1.55%	Russell 2000 28.44%	Russell 2000 16.53%	Russell 2000 22.36%	LB Agg 8.70%	S&P 500 21.04%	S&P 500 -9.11%	S&P/Citi 500 Value -11.71%	S&P/Citi 500 Value -20.85%	S&P/Citi 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%	S&P 500 15.79%	S&P 500 5.49%
S&P 500 16.61%	LB Agg 14.53%	Russell 2000 -19.50%	S&P/Citi 500 Value 22.56%	LB Agg 7.40%	S&P 500 10.08%	Russell 2000 -1.81%	Russell 2000 Value 25.75%	Russell 2000 Growth 11.32%	Russell 2000 Growth 12.93%	Russell 2000 Growth 1.23%	S&P/Citi 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%	Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%	S&P/Citi 500 Value 1.99%
S&P/Citi 500 Growth 11.95%	Russell 2000 Value 12.43%	Russell 2000 Value -21.77%	LB Agg 16.00%	S&P/Citi 500 Growth 5.06%	LB Agg 9.75%	Russell 2000 Growth -2.44%	LB Agg 18.46%	MSCI EAFE 6.05%	LB Agg 9.64%	Russell 2000 -2.55%	LB Agg -0.82%	S&P/Citi 500 Growth -22.08%	S&P/Citi 500 Growth -12.73%	S&P/Citi 500 Growth -23.59%	S&P/Citi 500 Growth 25.66%	S&P/Citi 500 Growth 6.13%	S&P/Citi 500 Growth 4.00%	S&P/Citi 500 Growth 11.01%	Russell 2000 -1.57%
LB Agg 7.89%	MSCI EAFE 10.53%	MSCI EAFE -23.45%	MSCI EAFE 12.14%	MSCI EAFE -12.18%	S&P/Citi 500 Growth 1.68%	LB Agg -2.92%	MSCI EAFE 11.21%	LB Agg 3.64%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Russell 2000 Value -1.49%	Russell 2000 Growth -22.43%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	LB Agg 4.10%	LB Agg 4.34%	LB Agg 2.43%	LB Agg 4.33%	Russell 2000 Value -9.78%

- **S&P 500 Index** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- **S&P/Citigroup 500 Growth** and ● **S&P/Citigroup 500 Value Indices** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are NOT mutually exclusive.
- **Russell 2000 Index** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ.
- **Russell 2000 Value** and ○ **Russell 2000 Growth Indices** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth index contains those securities with a greater-than-average growth orientation. Securities in the Value index generally have lower price-to-book and price-earnings ratios than those in the Growth index. The constituent securities are NOT mutually exclusive.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.
- **LB Agg** is the Lehman Brothers Aggregate Bond Index. This index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.



The Callan Periodic Table of Investment Returns 1988–2007

The Callan Periodic Table of Investment Returns conveys an enormous amount of information. Above all, the Table shows that the **case for diversification** across investment styles (growth vs. value), capitalization (large vs. small) and equity markets (U.S. vs. international) is strong.

While past performance is no indication of the future, consider the following observations:

- The Table illustrates the unique experience of the 1995–1999 period, when **large cap growth** significantly outperformed all other asset classes and the U.S. stock market in general enjoyed one of its strongest five-year runs.
- The subsequent three years (2000–2002) saw consecutive declines in **large cap stocks** for the first time since 1929–1932. The S&P 500 suffered its largest loss since 1974, declining 40% from the market peak in March 2000 through the end of 2002.
- Stock markets around the world generated much more modest returns in 2007 compared to 2006. **International stocks** topped the performance rankings among all asset categories for the third year in a row, notching a fifth consecutive year of double-digit gains with returns of 11.17%. The U.S. stock market softened substantially after the robust performance reported in 2006. Large cap stocks were up 5.49%, and **growth** (9.13%) outperformed **value** (1.99%) for the first time this millennium. 2007 marked the first year since 2002 in which all of the asset categories depicted on the Table did not enjoy positive returns, as **small cap stocks** suffered a modest decline of 1.57%.
- Small cap underperformed large cap stocks in 2007, marking an abrupt end to an extended run where small cap outperformed large cap in seven of the previous eight years. The purpose of the Table is to compare relative rather than absolute performance, however it should be noted that while the spread between various asset class results remained very wide, the absolute level of equity returns retreated dramatically from the results of 2006. The difference between the best and worst performing domestic equity categories in 2007 was almost 19 percentage points.
- Growth outperformed value in both large and small cap equity markets during 2007, marking the end of a seven-year value run. While large cap growth beat large cap value by just over 700 basis points, the reversal was even greater in small cap, where growth absolutely trounced value by almost 1700 basis points.
- **Fixed income** (6.97%) moved up to fourth in the rankings in 2007 and outperformed large cap stocks after ranking last in each of the previous four years. The unfolding credit and liquidity crisis in the first half of 2007 triggered an investor flight to quality. The Federal Reserve responded to the crisis by cutting interest rates and providing short-term credit to the market, and the bond market rallied in the second half of the year. By December, the Fed had cut the Federal Funds rate from 5.25% to 4.25%, with further cuts expected in 2008.
- The Table highlights the **uncertainty** inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance. For example, witness the variability of returns for international equity when it ranked last for four straight years 1989–1992, or for large cap growth, when it ranked second from last for the seven years from 2000 to 2006.

This analysis assumes that market indices are reasonable representations of the asset classes and depict the returns an investor could expect from exposure to these styles of investment. In fact, investment manager performance relative to the different asset class indices has varied widely across the asset classes during the past 20 years.

Note: A printable copy of The Callan Periodic Table of Investment Returns is available on our website at www.callan.com.

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