

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1989–2008) Ranked in Order of Performance

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
S&P/Citi 500 Growth 36.40%	BC 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%	BC 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%	BC Agg 5.24%
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%	BC Agg 11.63%	BC 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 Value -28.92%
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%	Russell 2000 -33.79%
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%	BC Agg 6.97%	S&P/Citi 500 Growth -34.92%
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%	BC 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 -37.00%
BC Agg 14.53%	Russell 2000 -19.50%	S&P/Citi 500 Value 22.56%	BC 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%	Russell 2000 Growth -38.54%
Russell 2000 Value 12.43%	Russell 2000 Value -21.77%	BC Agg 16.00%	S&P/Citi 500 Growth 5.06%	BC Agg 9.75%	Russell 2000 Growth -2.44%	BC Agg 18.46%	MSCI EAFE 6.05%	BC Agg 9.64%	Russell 2000 -2.55%	BC 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%	S&P/Citi 500 Value -39.22%
MSCI EAFE 10.53%	MSCI EAFE -23.45%	MSCI EAFE 12.14%	MSCI EAFE -12.18%	S&P/Citi 500 Growth 1.68%	BC Agg -2.92%	MSCI EAFE 11.21%	BC 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%	BC Agg 4.10%	BC Agg 4.34%	BC Agg 2.43%	BC Agg 4.33%	Russell 2000 Value -9.78%	MSCI EAFE -43.38%

- **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.
- **BC Agg** is the Barclays Capital Aggregate Bond Index (formerly 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 1989–2008

The Callan Periodic Table of Investment Returns conveys a vast 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:

- ❶ 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.
- ❷ Stock markets around the world suffered historic losses in 2008. **International stocks** had the dubious honor of the worst performance ranking among all asset categories on the Table, declining 43.4%, after leading all categories for the three previous years. (While not depicted on the Table, the emerging markets suffered an even greater loss, falling 53.2%). The U.S. stock market sustained its worst drubbing since the 1930s. Large cap stocks were down 37%, a decline second only (since 1926) to the 43% drop in 1931. **Growth** (-34.9%) outperformed **value** (-39.2%) for the second year in a row, but this relative performance provided cold comfort given the magnitude of the loss. As in 2002, all equity categories reported negative returns, while the broad **fixed income** market notched the only positive return (+5.2%) among the broad asset class categories in the table.
- ❸ For the eighth year out of the last 10, **small cap** (-33.8%) outperformed large cap stocks in 2008. Unlike large cap, small cap value (-28.9%) outperformed small cap growth (-38.5%). The purpose of the Table is to compare relative rather than absolute performance, however it should be noted that while the spread between various equity asset classes narrowed, the absolute level of equity returns declined dramatically from the results of 2003–2007. Including all asset categories, the difference between the best performing (fixed income) and the worst (international equity) in 2008 was almost 50 percentage points.
- ❹ **Fixed income** (+5.2%) reported the only positive return in 2008. The unfolding credit and liquidity crisis that began in 2007 and accelerated into the second half of 2008 triggered an investor flight to quality. The Federal Reserve responded to the crisis by slashing interest rates to almost zero and providing massive liquidity to the market. Unfortunately, the credit markets remained locked up through the end of 2008. The returns for various segments of the "broad" fixed income market as represented by the Aggregate Index were quite divergent. The Government portion of the index returned 12.4%, fueled by a return of 13.7% to Treasuries. Corporate bonds, on the other hand, lost 4.9%, while the mortgage-backed portion of the market returned 8.3%.
- ❺ 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.
- ❻ 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.

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.

Callan Associates Inc.

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