

# Market Commentary



## 80 YEARS OF MARKET HISTORY

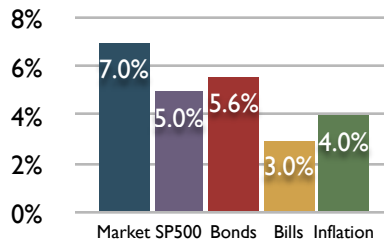
### LEARN AND EARN

A few months ago we launched a monthly commentary service, which is available for sale at [\(click here\)](#). Each month we identify the segments of the stock market that have behaved well and poorly. Then once a year in January we release an extensive review of the long-run capital markets, going back to 1926, documenting risk-reward characteristics and discussing how the recent past stacks up against this history. It's a big deal.

The 2004 commentary received the prestigious Kessler award from the Investment Management Consultants Association (IMCA) for meritorious contribution to the investment consulting profession.

Now our 2005 review is available, and we feel that it too is award worthy. An overview follows. Please feel free to quote the following with appropriate attribution to "Surz Market Review, a service of PPCA, Inc." Please contact us at 949/488-8339 or [Ron@PPCA-Inc.com](mailto:Ron@PPCA-Inc.com) if you would like to see all 12 information-packed exhibits or have any questions.

## Highlights from Perspectives on 2005



The broad stock market returned 7% in 2005, and corporate bonds earned 5.6%. Inflation averaged 4%. Both the real (inflation-adjusted) and the nominal returns on stocks are below their long-run average. The real and nominal bond returns are near average.

### Q4/05 S&P500 Style Attribution



The "stuff in the middle" surprised in 2005 by not performing in between. Mid cap companies outperformed both large and small companies, while core stocks (defined as those in between value and growth) underperformed both value and growth.

Because mid-cap outperformed large, the S&P500 lagged the broad market with a 4.9% return in 2005.

Most of the 2005 S&P return is attributable to a 37% return in energy stocks, following a 33% return in 2004.

Value stocks, especially smaller company value stocks have performed very well over the past 5 years. By contrast, growth stocks are still struggling to claw back from losses suffered at the beginning of the century.

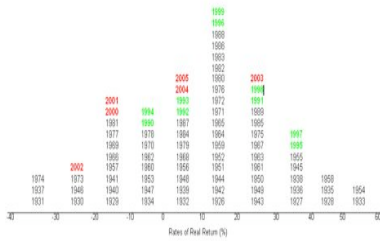
Consistent with the style story, energy and utility stocks have performed best while technology stocks have lagged.

Despite the fact that 2004 and 2005 were just mediocre for traditional stock investing, hedge fund investing was disappointing, generally performing worse than the stock market.

Hedge fund due diligence can and should be improved, especially performance evaluation.

Treasury bills yielded a real (inflation adjusted) loss of 0.8%, following a 2% real loss in 2004. In theory this is not supposed to happen, since investors are supposed to price Treasuries to yield a premium above inflation. Some powerful market forces had to be in play to get investors to accept real losses on their Treasury bill investments.

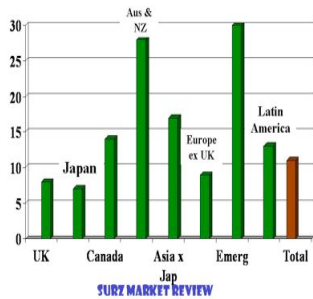
### Histogram of 80 Years of S&P Returns



#### Surz Market Review

- ◆ Recent stock and bond markets have been less efficient than historical markets, delivering less return per unit of risk.
- ◆ Stock market returns have not been normally distributed. That is, they have not followed a bell-shaped curve.
- ◆ We just recently enjoyed the best 25-year bond market ever, with real returns averaging 7.4% per year for the 25 years ending February, 2005.

### Country Returns for 5 Years Ending 12/05



- ◆ Foreign markets have performed substantially better than U.S. markets, averaging 11% per year over the past 5 years, versus 2% per year domestically.
- ◆ Outside the U.S., emerging markets have thrived, delivering 30% per year returns during the past 5 years. Because the MSCI EAFE index does not include emerging markets it has underperformed broad non-U.S. markets.

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This document showed just the overview of the full report. To obtain the full report, please contact us at 949/488-8339 or email [Ron@PPCA-Inc.com](mailto:Ron@PPCA-Inc.com) if you would like to see all 12 information-packed exhibits or have any questions.