

The Callan Periodic Table of Investment Returns



Annual Returns for Key Indices (1986–2005)

Ranked in order of performance (Best to Worst)

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
MSCI EAFE 69.46%	MSCI EAFE 24.64%	Russell 2000 Value 29.47%	S&P/Barra 500 Growth 36.40%	LB Agg 8.96%	Russell 2000 Growth 51.19%	Russell 2000 Value 29.14%	MSCI EAFE 32.57%	MSCI EAFE 7.78%	S&P/Barra 500 Growth 38.13%	S&P/Barra 500 Growth 23.97%	S&P/Barra 500 Growth 36.52%	S&P/Barra 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%
S&P/Barra 500 Value 21.67%	S&P/Barra 500 Growth 6.50%	MSCI EAFE 28.26%	S&P 500 Index 31.69%	S&P/Barra 500 Growth 0.20%	Russell 2000 46.04%	Russell 2000 18.41%	Russell 2000 Value 23.77%	S&P/Barra 500 Growth 3.13%	S&P 500 Index 37.58%	S&P 500 Index 22.96%	S&P 500 Index 33.36%	S&P 500 Index 28.58%	S&P/Barra 500 Growth 28.24%	LB Agg 11.63%	LB Agg 8.43%	Russell 2000 Value -11.43%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P/Barra 500 Value 6.33%
S&P 500 Index 18.67%	S&P 500 Index 5.25%	Russell 2000 25.02%	S&P/Barra 500 Value 26.13%	S&P 500 Index -3.11%	Russell 2000 Value 41.70%	S&P/Barra 500 Value 10.52%	Russell 2000 18.88%	S&P 500 Index 1.32%	S&P/Barra 500 Value 36.99%	S&P/Barra 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	MSCI EAFE 26.96%	S&P/Barra 500 Value 6.08%	Russell 2000 2.49%	MSCI EAFE -15.94%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 Index 4.91%
LB Agg 15.30%	S&P/Barra 500 Value 3.68%	S&P/Barra 500 Value 21.67%	Russell 2000 Growth 20.17%	S&P/Barra 500 Value -6.85%	S&P/Barra 500 Growth 38.37%	Russell 2000 Growth 7.77%	S&P/Barra 500 Value 18.61%	S&P/Barra 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P/Barra 500 Value 29.98%	S&P/Barra 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/Barra 500 Value 15.71%	Russell 2000 Value 4.71%
S&P/Barra 500 Growth 14.50%	LB Agg 2.75%	Russell 2000 Growth 20.37%	Russell 2000 16.26%	Russell 2000 Growth -17.41%	S&P 500 Index 30.47%	S&P 500 Index 7.62%	Russell 2000 Growth 13.37%	Russell 2000 Value -1.54%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	LB Agg 8.70%	S&P 500 Index 21.04%	S&P 500 Index -9.11%	S&P/Barra 500 Value -11.71%	S&P/Barra 500 Value -20.85%	S&P/Barra 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%
Russell 2000 Value 7.41%	Russell 2000 Value -7.11%	S&P 500 Index 16.61%	LB Agg 14.53%	Russell 2000 -19.48%	S&P/Barra 500 Value 22.56%	LB Agg 7.40%	S&P 500 Index 10.08%	Russell 2000 -1.82%	Russell 2000 Value 25.75%	Russell 2000 Growth 11.26%	Russell 2000 Growth 12.95%	Russell 2000 Growth 1.23%	S&P/Barra 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 Index -11.89%	S&P 500 Index -22.10%	S&P 500 Index 28.68%	S&P 500 Index 10.88%	Russell 2000 Growth 4.15%
Russell 2000 5.68%	Russell 2000 -8.80%	S&P/Barra 500 Growth 11.95%	Russell 2000 Value 12.43%	Russell 2000 Value -21.77%	LB Agg 16.00%	S&P/Barra 500 Growth 5.06%	LB Agg 9.75%	Russell 2000 Growth -2.43%	LB Agg 18.46%	MSCI EAFE 6.05%	LB Agg 9.64%	Russell 2000 -2.55%	LB Agg -0.82%	S&P/Barra 500 Growth -22.08%	S&P/Barra 500 Growth -12.73%	S&P/Barra 500 Growth -23.59%	S&P/Barra 500 Growth 25.66%	S&P/Barra 500 Growth 6.13%	S&P/Barra 500 Growth 3.46%
Russell 2000 Growth 3.58%	Russell 2000 Growth -10.48%	LB Agg 7.89%	MSCI EAFE 10.53%	MSCI EAFE -23.45%	MSCI EAFE 12.14%	MSCI EAFE -12.18%	S&P/Barra 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%	Russell 2000 EAFE -21.44%	Russell 2000 Growth -30.26%	LB Agg 4.10%	LB Agg 4.34%	LB Agg 2.43%

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/Barra 500 Growth and **S&P/Barra 500 Value** indices measure the performance of growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the stocks in the S&P 500 Index according to price-to-book ratios. The Growth index contains stocks with higher price-to-book ratios. The Value index contains stocks with lower price-to-book ratios. The indices are market-capitalization-weighted and their constituents are mutually exclusive. Note: S&P switched to a new definition of growth and value in December 2005. The S&P/Citigroup Growth and Value Indices will be used in future editions of the Periodic Table.

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 growth and value styles of investing in small cap U.S. stocks. The Value index contains those Russell 2000 securities with a less-than-average growth 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.

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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 1929–32. The S&P 500 suffered its largest loss since 1974, declining 40% from the market peak in March 2000 through the end of 2002.
- The U.S. stock market generated only modest returns in 2005, lower than those achieved in 2004 and 2003. Returns on large cap and **small cap stocks** dipped below 5%. **International stocks** topped the performance rankings among all asset categories, notching a third year in a row of double-digit gains with 13.54% returns. Despite the low U.S. equity returns, 2005 was the third year in a row in which all of the asset categories depicted on the Table enjoyed positive returns.
- Large cap outperformed small cap stocks in 2005, marking the end of a six-year run of small cap outperformance from 1999 to 2004. The purpose of the Table is to compare relative rather than absolute performance, however, it should be noted that while equity rankings shifted dramatically between 2004 and 2005, the absolute level of equity returns compressed considerably. The difference between the best and worst performing domestic equity categories in 2005 was less than three percentage points.
- Value outperformed growth in both large and small cap equity markets during 2005. However, the huge disparity in performance between the two styles, seen during 1997–2000 for large cap and from 1996 through 2002 for small cap, has disappeared.
- **Fixed income** ranked last in 2005 for the third year in a row, after ranking first in 2002 and second during the two previous years. The surprise for many investors was not that fixed income lagged stocks, but that it recorded a positive return at all, given the rising interest rate environment. The Federal Reserve raised interest rates eight times during 2005, boosting the Federal Funds rate by 2.00%.
- 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 past five years.

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.

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