The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1987–2006)

Ranked in order of performance (Best to Worst)

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
MSCI EAFE 24.64%	Russell 2000 Value 29.47%	S&P/Citi 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/Citi 500 Growth 38.13%	S&P/Citi 500 Growth 23.97%
S&P/Citi 500 Growth 6.50%	MSCI EAFE 28.26%	S&P 500 Index 31.69%	S&P/Citi 500 Growth 0.20%	Russell 2000 46.04%	Russell 2000 18.41%	Russell 2000 Value 23.77%	S&P/Citi 500 Growth 3.13%	S&P 500 Index 37.58%	S&P 500 Index 22.96%
S&P 500 Index 5.25%	Russell 2000 25.02%	S&P/Citi 500 Value 26.13%	S&P 500 Index -3.11%	Russell 2000 Value 41.70%	S&P/Citi 500 Value 10.52%	Russell 2000 18.88%	S&P 500 Index 1.32%	S&P/Citi 500 Value 36.99%	S&P/Citi 500 Value 22.00%
S&P/Citi 500 Value 3.68%	S&P/Citi 500 Value 21.67%	Russell 2000 Growth 20.17%	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%
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 Value -7.11%	S&P 500 Index 16.61%	LB Agg 14.53%	Russell 2000 -19.48%	S&P/Citi 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 -8.80%	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 -2.43%	LB Agg 18.46%	MSCI EAFE 6.05%
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/Citi 500 Growth 1.68%	LB Agg -2.92%	MSCI EAFE 11.21%	LB Agg 3.64%

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
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%
S&P 500 Index 33.36%	S&P 500 Index 28.58%	S&P/Citi 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/Citi 500 Value 5.82%	Russell 2000 Value 23.48%
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 Index 4.91%	S&P/Citi 500 Value 20.81%
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%
Russell 2000 22.36%	LB Agg 8.70%	S&P 500 Index 21.04%	S&P 500 Index -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 Index 15.79%
Russell 2000 Growth 12.95%	Russell 2000 Growth 1.23%	S&P/Citi 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 Growth 13.35%
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%
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%

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.

CALLAN ASSOCIATES INC.
knowledge for investors

The Callan Periodic Table of Investment Returns (1987–2006)

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.
- Stock markets around the world generated robust returns in 2006. ***International stocks*** led all asset classes for the second year, notching a fourth consecutive year of double-digit gains with a return of 26.34%. The U.S. stock market improved on the modest performance reported in 2005, with all segments of the market—large, small, value and growth—generating double-digit returns. 2006 also marked the fourth year in a row in which all of the asset categories depicted on the table enjoyed positive returns.
- Small cap stocks surpassed large cap stocks in 2006, marking a return to the extended run of small cap outperformance that began in 1999 and was only briefly interrupted in 2005. The purpose of the table is to compare relative rather than absolute performance, however, it should be noted that while the equity rankings changed little in 2006, the absolute level of equity returns expanded dramatically from the compressed results of 2005. The difference between the best and worst performing domestic equity categories in 2006 was more than fifteen percentage points.
- Value outperformed growth in both large and small cap equity markets during 2006, marking the seventh year of an extended value run. After compressing to less than 2% during 2005, the difference between growth and value style returns in both large and small cap increased to 10% in 2006.
- ***Fixed income*** ranked last in 2006 for the fourth year in a row, after ranking first in 2002 and second during the two previous years. The continuing 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 five times in 2006 before pausing in August, for a total of seventeen 25 basis point rate hikes since it began tightening in June of 2004. The federal funds rate rose from 4.0%, at the start of the year, to 5.25%.
- 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 seven 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.

Please visit our website for our quarterly Capital Market Review *newsletter containing our commentary on changes in the capital markets (www.callan.com – click on the "resource center" and "periodicals").*

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Callan Associates Inc.
101 California Street, Suite 3500
San Francisco, CA 94111
Tel: 415.974.5060
Fax: 415.291.4014

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