The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1991–2010) Ranked in Order of Performance

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
MSCI Emerging Markets 59.91%	Russell 2000 Value 29.14%	MSCI Emerging Markets 74.84%	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%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	BC Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.54%	MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	BC Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%
Russell 2000 Growth 51.19%	Russell 2000 18.41%	MSCI EAFE 32.57%	S&P/Citi 500 Growth 3.13%	S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	BC Agg 11.63%	BC Agg 8.43%	MSCI Emerging Markets -6.00%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 26.85%
Russell 2000 46.04%	MSCI Emerging Markets 11.40%	Russell 2000 Value 23.77%	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%	S&P/Citi 500 Growth 28.24%	S&P/Citi 500 Value 6.08%	Russell 2000 2.49%	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 -33.79%	MSCI EAFE 31.78%	Russell 2000 Value 24.50%
Russell 2000 Value 41.70%	S&P/Citi 500 Value 10.52%	Russell 2000 18.88%	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%	MSCI EAFE 26.96%	Russell 2000 -3.02%	MSCI Emerging Markets -2.37%	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 Growth -34.92%	S&P/Citi 500 Growth 31.57%	MSCI Emerging Markets 19.20%
S&P/Citi 500 Growth 38.37%	Russell 2000 Growth 7.77%	S&P/Citi 500 Value 18.61%	Russell 2000 Value -1.54%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	BC Agg 8.70%	Russell 2000 21.26%	S&P 500 -9.11%	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 500 -37.00%	Russell 2000 27.17%	S&P/Citi 500 Value 15.10%
S&P 500 30.47%	S&P 500 7.62%	Russell 2000 Growth 13.37%	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 500 21.04%	MSCI EAFE -14.17%	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%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%
S&P/Citi 500 Value 22.56%	BC Agg 7.40%	S&P 500 10.08%	Russell 2000 Growth -2.43%	BC Agg 18.46%	MSCI EAFE 6.05%	BC Agg 9.64%	Russell 2000 -2.55%	S&P/Citi 500 Value 12.73%	S&P/Citi 500 Growth -22.08%	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 Value -39.22%	S&P/Citi 500 Value 21.17%	S&P/Citi 500 Growth 15.05%
BC Agg 16.00%	S&P/Citi 500 Growth 5.06%	BC Agg 9.75%	BC Agg -2.92%	MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	BC Agg -0.82%	Russell 2000 Growth -22.43%	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%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%
MSCI EAFE 12.14%	MSCI EAFE -12.18%	S&P/Citi 500 Growth 1.68%	MSCI Emerging Markets -7.32%	MSCI Emerging Markets -5.21%	BC Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	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 Emerging Markets -53.18%	BC Agg 5.93%	BC Agg 6.54%

S&P 500 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** 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 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** 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 indices are market-capitalization-weighted. 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.

MSCI Emerging Markets is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.

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.

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The Callan Periodic Table of Investment Returns 1991–2010

The Callan Periodic Table of Investment Returns conveys that the ***case for diversification*** across investment styles (growth vs. value), capitalization (large vs. small) and regions (U.S. vs. international) is strong.

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

- 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 large cap growth when it ranked second from last for the six years from 2001 to 2006, or the variability in the ranking for fixed income over the last eight years while returns remained bound in a very narrow range.
- Stock markets around the world enjoyed a second year of rebound in 2010, building on the double-digit gains in 2009. In a reversal of the pattern in 2009, the U.S. stock market generated a return (15.1%) superior to that of stocks in the developed markets overseas (7.8%). Emerging markets equities rose 19.2% and, combined with the 79% gain in 2009, have managed to erase the 53.2% loss suffered in 2008. Large cap growth (15.1%) tied the performance of value. All equity categories reported positive returns for the second year in a row.
- For the tenth year out of the last 12, small cap (26.9%) outperformed large cap (15.1%) stocks, and by a wide margin in 2010. Small cap growth (29.1%) outperformed small cap value (24.5%) for the second year in a row, and led the rankings among all asset categories.
- Fixed income (6.5%) generated a higher return than the 5.9% reported in 2009, yet once again ranked last among all categories. The performance of fixed income actually surprised on the upside in 2010. At the start of the year, economic growth was expected to lead to inevitably higher interest rates, and weak performance for fixed income. However, investor confidence in the economic recovery wavered, held back by uncertain economic news and the unfolding debt crisis in Europe. Interest rates declined through the first three quarters of the year, and bond returns soared. As confidence returned in the fourth quarter, equity markets jumped and bond yields moved up, reducing some of the gains in the fixed income market. While not depicted in the chart, high yield bonds notched another strong (15.1%) return in 2010, after an incredible 58.2% gain in 2009.
- The Table illustrates several sharply distinct periods for the capital markets over the past 20 years. First, note 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.
- Stocks recorded five years of gains from 2003–2007, led by particularly strong growth in emerging markets. Then the bottom fell out in 2008, and large cap stocks suffered the second-worst annual decline (-37%) since 1926. The strong performance of the S&P 500 in 2009 and 2010 has still not been enough to overcome the loss sustained in 2008.

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.

Callan Associates Inc.
Founded in 1973, Callan Associates Inc. is one of the largest independently owned investment consulting firms in the country. Headquartered in San Francisco, Calif., the firm provides research, education, decision support and advice to a broad array of institutional investors through four distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group and the Trust Advisory Group. Callan employs more than 150 people and maintains four regional offices located in Denver, Chicago, Atlanta and Florham Park, N.J.

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