

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1993–2012) Ranked in Order of Performance

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
MSCI Emerging Markets 74.84%	MSCI EAFE 7.78%	S&P 500 Growth 38.13%	S&P 500 Growth 23.97%	S&P 500 Growth 36.52%	S&P 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	Barclays 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%	Barclays Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	Barclays Agg 7.84%	MSCI Emerging Markets 18.63%
MSCI EAFE 32.57%	S&P 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%	Barclays Agg 11.63%	Barclays 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%	S&P 500 Growth 4.65%	Russell 2000 Value 18.05%
Russell 2000 Value 23.77%	S&P 500 1.32%	S&P 500 Value 36.99%	S&P 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P 500 Growth 28.24%	S&P 500 Value 6.08%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P 500 Value 5.82%	Russell 2000 Value 23.48%	S&P 500 Growth 9.13%	Russell 2000 -33.79%	MSCI EAFE 31.78%	Russell 2000 Value 24.50%	S&P 500 2.11%	S&P 500 Value 17.68%
Russell 2000 18.88%	S&P 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P 500 Value 29.98%	S&P 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 500 Value 20.81%	Russell 2000 Growth 7.05%	S&P 500 Growth -34.92%	S&P 500 Growth 31.57%	MSCI Emerging Markets 19.20%	S&P 500 Value -0.48%	MSCI EAFE 17.32%
S&P 500 Value 18.61%	Russell 2000 Value -1.54%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	Barclays 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 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 18.37%	Barclays Agg 6.97%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 Value 15.10%	Russell 2000 Growth -2.91%	Russell 2000 16.35%
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 500 Value -11.71%	S&P 500 Value -20.85%	S&P 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%	Russell 2000 -4.18%	S&P 500 16.00%
S&P 500 10.08%	Russell 2000 Growth -2.43%	Barclays Agg 18.46%	MSCI EAFE 6.05%	Barclays Agg 9.64%	Russell 2000 -2.55%	S&P 500 Value 12.73%	S&P 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 500 Value 1.99%	S&P 500 Value -39.22%	S&P 500 Value 21.17%	S&P 500 Growth 15.05%	Russell 2000 Value -5.50%	S&P 500 Growth 14.61%
Barclays Agg 9.75%	Barclays Agg -2.92%	MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Barclays Agg -0.82%	Russell 2000 Growth -22.43%	S&P 500 Growth -12.73%	S&P 500 Growth -23.59%	S&P 500 Growth 25.66%	S&P 500 Growth 6.13%	S&P 500 Growth 4.00%	S&P 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%	Russell 2000 Growth 14.59%
S&P 500 Growth 1.68%	MSCI Emerging Markets -7.32%	MSCI Emerging Markets -5.21%	Barclays 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%	Barclays Agg 4.10%	Barclays Agg 4.34%	Barclays Agg 2.43%	Barclays Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	Barclays Agg 5.93%	Barclays Agg 6.54%	MSCI Emerging Markets -18.17%	Barclays Agg 4.21%

- **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 500 Growth** and ● **S&P 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.
- **Barclays Aggregate Bond Index** (formerly the Lehman Brothers Aggregate Bond Index) includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.

The Callan Periodic Table of Investment Returns 1993–2012

The Callan Periodic Table of Investment Returns conveys that the **case for diversification** across asset classes (stocks vs. bonds), investment styles (growth vs. value), capitalizations (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 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 10 years while returns remained bound in a relatively narrow range.
- Stock markets around the world rebounded smartly in 2012 after suffering through incredible volatility in 2011. Global economic growth remained subdued and policy uncertainty persisted in Europe and the U.S., unnerving investors. Nonetheless, equity markets broadly outperformed long-term averages and notched solid gains in the 15% to 20% range. The **U.S. stock market** generated 16%, with much of the gain recorded in a strong third quarter, and the **developed markets overseas** did even better (+17.32%). **Emerging markets** notched the highest return (+18.63%) among all asset classes displayed in the table during 2012, after suffering the worst loss in 2011 (-18.17%). After underperforming in four of the previous five years, **large cap value** (+17.68%) led the way in the U.S. large cap market, outperforming **growth** (+14.61%) by 3.07%.
- Reverting to long-term trends, **small cap** (+16.35%) beat large cap (+16.00%) stocks in 2012, the 11th time in the past 14 years. **Small cap value** (+18.05%) bested **small cap growth** (+14.59%) for the first time in four years.
- **Fixed income** (+4.21%) generated the lowest return among asset classes in 2012 after leading the pack in 2011. While muted, fixed income gains surprised on the upside, just as in 2010 and 2011. At the start of the 2012, yields remained exceptionally low (2.24% for the Barclays Aggregate). Economic growth was expected to lead to inevitably higher interest rates, and therefore weak performance for fixed income. However, investor confidence in the economic recovery wavered during the first half of 2012. Interest rates declined into the third quarter, with the yield on the Aggregate falling to 1.56% at the end of September, driving up bond prices and total returns. Yields backed up modestly in the fourth quarter, tempering total return for the year. The stage remains set for weak bond market performance should interest rates begin to rise.
- 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 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 its 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 the U.S. stock market sustained its worst drubbing since the 1930s. Large cap stocks suffered the second-worst annual decline (-37.00%) since 1926.

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

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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.