

Dear Client:

We think the Callan Periodic Table chart provided by Callan Associates, Inc. is one of the most useful visuals on investing we have seen. It shows the performance of eight key indices over a 20 year period, ranked best to worst each year.

One of the most common investment mistakes occurs when investors decide to buy an investment in an asset class that has done well in the recent past, and sell in an asset class that has done poorly.

If you study the chart you can see that such a strategy consistently has resulted in poor performance because top performing categories do not always repeat, and they often rank among the bottom performers immediately following a period of out-performance.

You can also begin to understand why accurately predicting which asset class will be the top performer year after year would not be possible.

A more successful investment strategy would be to:

- maintain a portfolio diversified among asset classes,
- concentrate new buying in asset classes that have performed poorly in recent years,
- consider selling partial positions in asset classes that have performed well in recent years.

There are many insights to be gleaned from this chart, among them:

1. Some asset classes, such as bonds, are more frequently ranked within the lower third in performance, with occasional periods of out-performance. It has not paid off to buy bonds after a period in which they have outperformed in the past 20 years.
2. Some asset classes appear to be more volatile, such as international and large growth, which are more frequently near either the top or bottom in the performance rankings in any given year.
3. Some asset classes are less volatile, like large value, which is more frequently concentrated in the middle of the chart, rather than the top or the bottom.
4. International, and the growth sectors, might be good places to add money now as they have underperformed recently.
5. Small value ** and bonds might be good places to take some profits now.

Understanding this chart can be helpful in setting expectations for various parts of a portfolio, and for making decisions about where new investment dollars should be deployed.

*Please note that international investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

**Investing in small-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor.