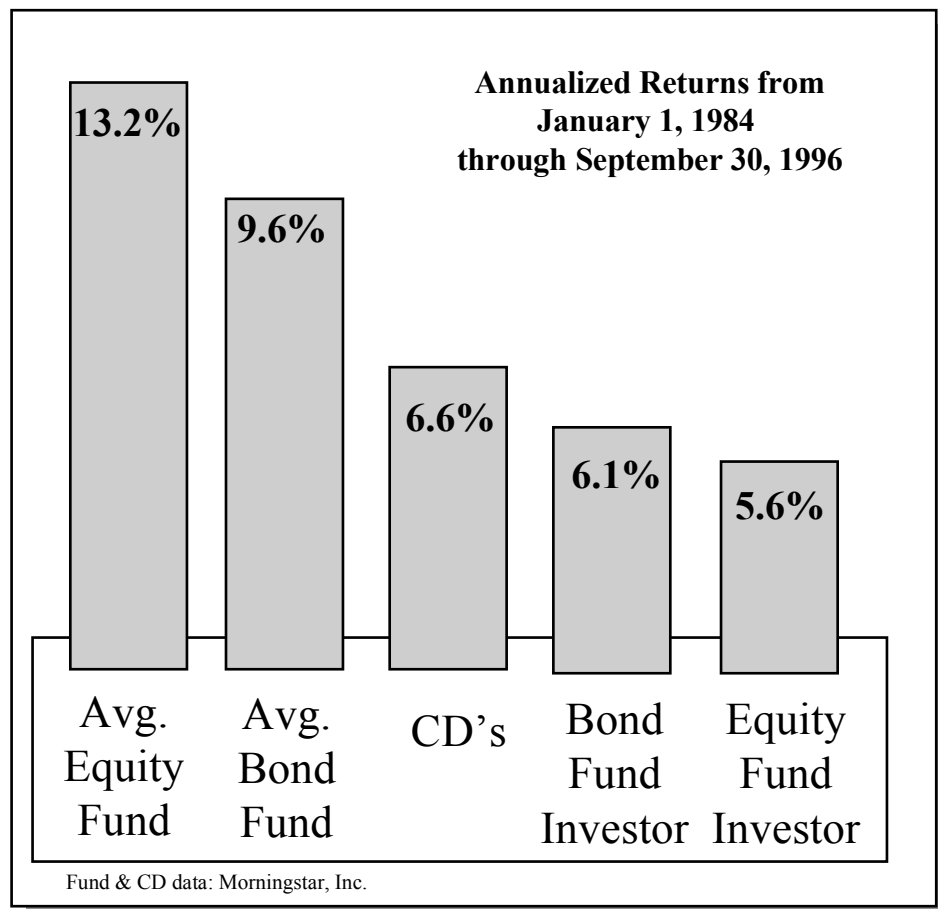


Does Investment Performance Matter?

There is a big difference between *investment* performance and *investor* performance, as illustrated in the chart below. The two columns on the left show the annual total returns of the average growth and income stock mutual fund and the average high quality corporate bond mutual fund. In the middle is the average annual return from six month certificates of deposit. The two columns on the right show the annual total returns of the average no-load bond fund investor and the average no-load stock fund investor, based upon a study by Dalbar, Inc., a mutual fund research firm.



Over the past 13 years, during one of the biggest bull markets for both stocks and bonds in U.S. history, no-load mutual fund investors would have done better if they had just left their money in CDs. No-load stock fund investors

achieved only 42 percent of the return of the instruments in which they invested. How is this possible?

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We wrote two newsletters last year emphasizing the importance of emotions in investing. Emotions explain how no-load fund investors have done so poorly. Investors get greedy as the market goes up, and pile into aggressive funds near the top. When the market falls a bit, they get fearful and abandon their funds near the bottom. Emotions destroy returns via bad market timing decisions by investors. The Dow Jones Industrial Average at the end of the period included in the study was more than 4.5 times higher than at the beginning. The 1987 “crash” notwithstanding, in a historical context, very little pain was inflicted on investors during the period shown. How much worse would actual investor results have been during a volatile, scary market?

Like everyone else today, we extol the virtues of long term investing. The problem with the long run, however, is that you have to live through a series of short runs to get there. It’s one thing to point out that in the worst 10 year holding period since World War II (1965-74), the total return on the Standard & Poor’s 500 average was still positive, but quite another to have actually lived through the 48 percent decline in that same average in 1973-74. It’s one thing to look in the history books and see that the total return on the S&P 500 in 1987 was 5.23 percent, but quite another to have experienced the 35 percent decline in the average between August and October that year.

Many investors today, after the giddy market of the past two years, make decisions based primarily on the investment performance of different mutual funds and securities. The primary determinant of where they wind up, however, will be their own behavior.

At Sigma, we pride ourselves on our mutual fund analysis and selection process. The biggest value we add, however, is our rational investment approach that helps our clients stay the course with a true long run strategy, insulated from the fads (and fears) of the moment. If you would like our help, contact us.