

December 1996

“The best lack all conviction, while the worst are full of terrible intensity”

A time-honored December tradition is to look back at the year which is passing. In response to popular demand, we thought we would revisit some of our newsletters to give you an update.

Last January we sent you a table comparing the annual returns from large stocks, small stocks, international stocks and bonds over the last 30 years. Our admonition was to “not learn too well the lessons of 1995,” since 1995 was only the second year out of 30 in which large stocks outperformed the other three asset classes. Better advice would have been to learn those lessons for at least one more year. Barring a late-year catastrophe, 1996 will be only the third year out of 31 in which large stocks were the best performers.

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top 20 performing funds in 1995
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In “*Don’t Play ‘Concentration’*” last February, we warned that funds at the top of the performance lists often get to the top by taking risks in concentrated portfolios. Through October 1996, only four of 1995’s 20 top performing funds (out of about 7600 funds in our database) had performed better than Vanguard’s S&P 500 index fund. In this wildly bullish year, nine of 1995’s top performers actually *lost* money.

In our March piece on index funds, we viewed indexing as a sound strategy for large U.S. stocks, but questioned its value for small or foreign stocks. Through October, Vanguard’s S&P 500 (large stock) index fund had outperformed about 75 percent of diversified U.S. large company mutual funds, but Vanguard’s small company index fund had underperformed about two-thirds of small company funds and the top foreign stock index fund had underperformed about three quarters of developed country foreign stock funds.

In last May’s *Amateur Hour Deja Vu*, we poked fun at investment novices who feel compelled to write books telling us how easy it is to get rich in the stock market. Our main complaint with authors like the Beardstown Ladies investment club is that they promised returns of 20 or 30 percent a year, well in excess of the actual records of the best professional managers. Recognizing the yen for homespun advice and anecdotes, we gladly will give anyone who calls a recipe for a dynamite cornbread stuffing for your holiday turkey (“dynamite” the adjective, not the ingredient). Unfortunately, the excesses of the current bull market have led to ever-increasing wild performance claims by a new crop of self-appointed gurus. A new hot investment book promises investment returns of almost 1000 percent a year, and a television ad we saw today actually touted doubling your money in one day. I guess we all bother to still show up for work

as a pleasant diversion. Maybe getting rich isn't quite so easy, though -- in our June letter *Buffeted by Speculation on Planet Yahoo!*, we questioned the valuations placed on three hot stocks. Despite recent record market levels, Yahoo!, Planet Hollywood and Iomega are down 56, 29 and 60 percent from their highs.

Our September essay *Five Funds To Ignore Today!* questioned the value of the advice given by certain popular personal finance magazines. The headline of the next issue of *Money Magazine* screamed "Invest Safely and Make 20% Or More." As we have told you many times, the long term average annual return on stocks, considered a risky asset, is about 10 percent a year. Doubling that with little risk would be quite a trick. The article recommended municipal bond funds, government bond funds, utility funds, and international bond funds. Since funds in each of these categories have not even remotely approached returns of 10 percent annually over the last 10 years, in perhaps the biggest bull market for bonds ever, we wonder what is behind *Money's* promise in the headline. Unfortunately, the article didn't explain.

After being nearly pecked to death by birds, it's nice to see actress Tippi Hedren doesn't carry a grudge and is still willing to help animals.

In June, we described how a follower of Iomega stock was maliciously mailed a dead cat by investors betting that Iomega would decline. Things are looking up for animal lovers, however, with the creation of the Cruelty Free Value Fund. The fund will invest only in companies that do not test their products on animals. A portion of the management fees will be donated to "animal-related issues," as directed by actresses Tippi Hedren and Linda Blair. Ms. Hedren was most famously seen being pecked nearly to death in Alfred Hitchcock's *The Birds*. It's nice to see that in the often shallow world of Hollywood she does not carry a grudge. Ms. Blair is perhaps most famous for her head-spinning role as the demonically possessed girl in *The Exorcist*. No comment, other than, as Dave Barry would say, we're not making this up.