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Total Return Review

Viewing the Markets from a Total Return Perspective

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September's Stock Swoon

We noted in June's Total Return Review stock returns for that month were amongst the worst in recent memory; specifically, the S&P 500's return of -8.42% was the twelfth worst month since 1970.

We asked after looking at returns three, six and 12 months after such poor monthly performances:

> *Given that the majority of returns 12 months after the months listed below tend to be extremely high, should we expect similar returns a year from today? While we shudder anytime the following statement is made, "this time may be different."*
>
> *Many of the previous months listed below marked a capitulation. In many cases, stocks were up over 20% just 6 months later. Now, however, the relatively low level of the VIX is not signaling a capitulation of any sort.*

Stocks did indeed buck the historical trend in the three months following June 2008, as is highlighted in red below. Given September's similarly ugly return of -8.90%, should we continue to expect poor returns over the next three, six and 12 months?

In the three months since we last wrote on this topic, the markets have turned increasingly volatile, as is evidenced by the VIX' parabolic move higher. The S&P lost almost 8.6% on September 29th alone, leading to a six-year high of 48.4 on the VIX.

While we shy away from playing the market-timing game for the time being, many were quick to label this as the capitulation which may very well mark the bottom in stocks. For the moment many investors seem content to wait and see what happens with the proposed bailout bill before making any judgments. When markets swing as violently as they have the past week or two, this may prove to be the more prudent course of action.

Worst Monthly Performances of the S&P 500 Since 1970

Date	Monthly Return	YTD Return	Return 3 Months Later	Return 6 Months Later	Return 12 Months Later
Apr-70	-8.89%	-18.66%	-2.75%	4.81%	29.16%
Nov-73	-10.82%	-15.09%	1.19%	-7.47%	-24.25%
Aug-74	-8.28%	-27.95%	0.41%	14.94%	26.92%
Sep-74	-11.70%	-38.92%	10.37%	32.00%	35.32%
Oct-78	-8.72%	6.35%	8.54%	11.92%	15.24%
Mar-80	-9.72%	6.18%	12.93%	23.85%	35.06%
Sep-86	-8.27%	31.74%	5.65%	25.95%	37.58%
Oct-87	-21.54%	6.40%	3.57%	6.23%	14.94%
Aug-90	-9.04%	-4.98%	1.17%	15.44%	24.84%
Aug-98	-14.46%	8.09%	20.59%	27.42%	34.87%
Feb-01	-9.12%	-8.20%	2.10%	-7.57%	-8.58%
Sep-02	-10.87%	-20.49%	8.80%	5.65%	23.08%
Jun-08	-8.42%	-13.11%	**-8.29%**	???	???
Sep-08	-8.90%	-21.96%	???	???	???

U.S. Fixed Income Total Returns

	As of 9/30/08			Annualized Ending 9/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Treasury Cash:	**0.33%**	**0.69%**	**1.94%**	**3.01%**	**4.23%**	**3.26%**	**3.52%**
3 Month	0.30%	0.63%	1.83%	2.90%	4.20%	3.26%	3.55%
6 Month	0.46%	0.99%	2.63%	4.03%	4.69%	3.53%	3.82%
Treasury Coupons:	**2.52%**	**4.40%**	**6.78%**	**12.89%**	**6.82%**	**4.59%**	**4.95%**
2 Year	0.99%	2.10%	4.25%	6.89%	5.41%	3.54%	4.42%
5 Year	0.74%	2.63%	4.64%	9.49%	5.94%	3.88%	5.03%
10 Year	0.24%	2.35%	4.40%	9.90%	5.20%	4.14%	4.61%
30 Year	2.31%	5.00%	6.06%	13.86%	5.50%	6.17%	5.30%
Treasury Strips:	**3.93%**	**6.44%**	**9.50%**	**16.86%**	**12.61%**	**8.72%**	**7.70%**
5 Year	0.69%	2.91%	5.59%	10.50%	6.76%	4.64%	5.95%
10 Year	-0.59%	2.08%	4.57%	10.59%	6.22%	5.63%	6.47%
15 Year	-0.29%	2.51%	4.09%	11.06%	5.41%	6.98%	6.93%
20 Year	1.71%	4.21%	4.18%	12.29%	5.50%	8.37%	7.22%
25 Year	4.04%	6.20%	5.08%	14.61%	5.43%	8.80%	6.76%
Broad Indices							
Merrill Lynch Domestic Master	-1.21%	-0.29%	1.03%	4.17%	4.35%	3.92%	5.28%
Lehman Aggregate	-1.34%	-0.48%	0.64%	3.66%	4.15%	3.79%	5.20%
Lehman Government/Credit	-2.53%	-1.54%	-0.57%	2.51%	3.64%	3.37%	5.01%
Government Indices							
Lehman Government	0.45%	1.92%	4.03%	7.91%	5.60%	4.35%	5.34%
Lehman Treasury	0.61%	2.30%	4.58%	8.72%	5.79%	4.46%	5.36%
Lehman Agency	0.07%	1.02%	2.73%	6.04%	5.17%	4.06%	5.32%
Agency Benchmarks							
2 Year	0.45%	1.16%	3.10%	5.42%	5.06%	3.56%	N/A
5 Year	0.60%	2.06%	3.20%	7.61%	5.75%	4.11%	5.78%
10 Year	-0.39%	1.39%	2.18%	7.14%	5.20%	4.90%	5.80%
30 Year	0.88%	3.29%	2.01%	8.32%	4.75%	6.39%	N/A
Other Indices							
Merrill Corporate	-7.34%	-7.49%	-8.24%	-6.48%	0.23%	1.63%	4.40%
Lehman Mortgage	0.75%	1.87%	3.84%	6.83%	5.53%	4.84%	5.67%
Lehman Inflation Notes ("TIPS")	-3.83%	-3.54%	1.17%	6.19%	4.32%	5.15%	7.34%
Merrill High Yield	-8.30%	-9.48%	-10.64%	-11.68%	0.91%	4.26%	4.54%
Merrill Muncipal	-5.09%	-3.81%	-3.88%	-2.67%	1.65%	3.21%	4.42%

Treasury Cash: Equal-weighted total-return avg. of the Treasury yield curve from 3 to 12 month maturities.
Treasury Coupons: Equal-weighted total-return avg. of the Treasury yield curve from 2 to 30 year maturities.
Treasury Strips: Equal-weighted total-return average of Treasury Strips from 1 year to 30 years.
Sources: Bloomberg, Lehman Brothers, Merrill Lynch and Arbor Research & Trading

Total Return Comparisons: The "Bullet" versus "Barbells"

	As of 9/30/08					
Portfolio Type*	MTD	Diff.	QTD	Diff.	YTD	Diff.
Bullet (4.92 Duration)	**0.69%**		**2.91%**		**5.59%**	
5 yr and 10 yr	0.68%	-0.01%	2.60%	-0.31%	4.61%	-0.98%
5 yr and 30 yr	0.80%	0.11%	2.72%	-0.19%	4.69%	-0.90%
2 yr and 10 yr	0.63%	-0.06%	2.22%	-0.69%	4.32%	-1.27%
2 yr and 30 yr	1.27%	0.58%	2.70%	-0.21%	4.62%	-0.97%
Cash and 10 yr	0.26%	-0.43%	1.65%	-1.26%	3.37%	-2.22%
Cash and 30 yr	0.88%	0.20%	1.91%	-1.01%	3.07%	-2.52%
Cash and 25 yr Strips	1.02%	0.33%	1.70%	-1.21%	2.46%	-3.13%

*This analysis compares the total return of the 5-Year Strip or the "bullet" to cash neutral, duration neutral barbells.
Its purpose is to quantify the effect of the yield curve on total return.
Sources: Bloomberg and Merrill Lynch

World Fixed-Income Total Returns (in U.S. Dollars)

	in U.S. Dollars						
	As of 9/30/08			Annualized Ending 9/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
J. P. Morgan Government Bond Indices							
Country							
Canada	-1.52%	-3.93%	-3.85%	0.36%	7.54%	10.61%	9.76%
France	-3.83%	-7.17%	-0.44%	3.60%	6.87%	7.40%	6.17%
Germany	-3.50%	-6.97%	0.16%	4.09%	7.22%	7.60%	6.26%
Italy	-4.51%	-7.70%	-2.00%	1.82%	6.17%	7.30%	6.35%
Japan	1.96%	0.88%	6.35%	11.02%	3.67%	2.41%	3.85%
United Kingdom	-2.22%	-6.14%	-8.03%	-6.47%	3.77%	5.96%	5.41%
United States	0.60%	2.39%	4.69%	9.01%	5.89%	4.60%	5.47%
Region							
Europe	-3.78%	-7.20%	-1.88%	1.64%	6.31%	7.17%	6.23%
Global	-0.97%	-2.57%	2.07%	6.11%	5.53%	5.31%	5.28%
Global Non-United States	-1.43%	-3.93%	1.33%	5.29%	5.44%	5.52%	5.08%
J. P. Morgan Emerging Markets Bond Indices							
EMBI Plus	-6.71%	-4.56%	-5.17%	-2.63%	4.43%	7.98%	12.55%
Region							
Latin	-7.49%	-6.57%	-5.74%	-3.87%	4.51%	8.54%	10.12%
Non-Latin	-5.77%	-2.05%	-4.44%	-1.04%	4.22%	7.13%	19.76%

World Fixed-Income Total Returns (in Local Currency)

	in Local Currency						
	As of 9/30/08			Annualized Ending 9/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
J. P. Morgan Government Bond Indices							
Country							
Canada	-1.21%	0.68%	3.58%	7.38%	4.44%	5.46%	5.86%
France	0.80%	4.12%	3.62%	4.90%	1.56%	3.45%	4.25%
Germany	1.14%	4.35%	4.25%	5.38%	1.90%	3.64%	4.34%
Italy	0.09%	3.53%	2.00%	3.09%	0.90%	3.35%	4.43%
Japan	-0.26%	1.03%	1.07%	2.48%	1.43%	1.37%	1.30%
United Kingdom	0.06%	4.80%	2.71%	6.91%	3.51%	4.48%	4.91%
United States	0.60%	2.39%	4.69%	9.01%	5.89%	4.60%	5.47%
Region							
Europe	0.56%	4.08%	3.17%	4.76%	1.74%	3.61%	4.47%
Global	0.29%	2.71%	2.90%	5.08%	2.66%	3.23%	3.91%
Global Non-United States	0.20%	2.79%	2.39%	3.97%	1.71%	2.83%	3.38%

Sources: Bloomberg and J. P. Morgan & Co. Incorporated (http://www.jpmorgan.com/)

U. S. Equity Total Returns

	As of 9/30/08			Annualized Ending 9/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Broad Market							
Dow Jones Industrials [2]	-5.82%	-3.71%	-16.57%	-19.84%	3.33%	5.60%	5.47%
NASDAQ Composite [1]	-11.60%	-8.59%	-20.63%	-21.92%	-0.14%	3.94%	2.01%
NASDAQ 100 [2]	-14.83%	-13.10%	-23.25%	-23.36%	0.33%	4.55%	1.97%
Russell 1000 [4]	-9.53%	-9.35%	-19.50%	-22.10%	0.15%	5.49%	3.49%
Russell 2000 [4]	-7.97%	-1.11%	-10.38%	-14.48%	1.69%	8.15%	7.81%
Russell 3000 [4]	-9.40%	-8.73%	-18.81%	-21.52%	0.26%	5.70%	3.80%
S&P 500 (Capitalization Weighted) [3]	-8.90%	-8.36%	-19.27%	-21.96%	0.22%	5.17%	3.06%
S&P 500 (Equal Weighted) [1]	-10.13%	-7.92%	-17.96%	-21.99%	-0.39%	7.14%	7.64%
S&P 400 MidCap [3]	-10.70%	-10.86%	-14.34%	-16.67%	1.78%	8.65%	10.29%
S&P 600 SmallCap [3]	-6.75%	-0.85%	-7.88%	-13.82%	2.01%	9.90%	10.05%
Wilshire 5000 [1]	-9.30%	-8.67%	-18.64%	-21.26%	0.56%	6.00%	3.98%
Interest Rate Sensitive							
PSE Electric Utility Index [2]	-10.75%	-16.68%	-19.50%	-13.48%	2.93%	13.03%	6.70%
KBW Bank Stock Index [2]	2.94%	17.82%	-20.77%	-33.06%	-7.55%	-1.58%	3.51%
S&P 500 Financial Index [2]	-4.84%	0.86%	-29.08%	-39.21%	-9.32%	-1.87%	2.85%
Other Indices							
Morgan Stanley Consumer Index [2]	-4.56%	1.87%	-9.47%	-10.03%	6.06%	7.51%	5.51%
Morgan Stanley Cyclical Index [2]	-11.50%	-9.24%	-21.66%	-25.26%	4.29%	9.44%	8.93%
S&P 500/Barra Growth [3]	-10.38%	-11.46%	-18.60%	-19.58%	0.23%	3.68%	1.29%
S&P 500/Barra Value [3]	-7.47%	-4.95%	-20.18%	-24.46%	0.19%	6.64%	4.53%
Gold/Silver Stock Index [2]	-12.02%	-32.63%	-23.79%	-21.59%	6.21%	8.72%	7.47%

Sources: [1] **Wilshire Associates Incorporated (http://www.wilshire.com) and Ryan Labs Inc.**
[2] **Bloomberg L.P. and Ryan Labs Inc.**
[3] **BARRA, Inc. (http://www.barra.com) and Standard & Poors (http://www.spglobal.com)**
[4] **Frank Russell Company (http://www.russell.com)**

Commodity Total Returns

	As of 9/30/08			Annualized Ending 9/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Commodity Total Return Indices							
Reuters/Jefferies CRB[1]	-11.67%	-25.01%	-2.32%	5.99%	5.27%	10.59%	6.19%
S&P GSCI[2]	-12.44%	-28.61%	0.96%	12.72%	0.29%	13.27%	12.18%
Dow Jones-AIG Commodity	-11.53%	-27.70%	-8.01%	-3.66%	1.90%	10.15%	9.98%
Rogers International Commodities [3]	-14.00%	-27.71%	-5.86%	1.90%	7.59%	15.38%	14.96%
Brookshire International Raw Materials	-13.05%	-26.26%	-5.67%	0.90%	7.87%	17.67%	16.13%

Sources: [1] **Reuters/Jefferies CRB (http://www.jefferies.com)**
[2] **S&P GSCI (http://www2.standardandpoors.com)**
[3] **Beeland Management Co., L.L.C.**

World Equity Total Returns (in U.S. Dollars)

	in U.S. Dollars						
	As of 9/30/08			Annualized Ending 9/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morgan Stanley Capital International Indices							
Country							
Canada	-13.45%	-21.69%	-18.17%	-18.19%	8.83%	18.28%	15.08%
France	-13.25%	-18.88%	-28.05%	-27.50%	3.82%	12.41%	6.84%
Germany	-13.67%	-20.56%	-31.11%	-27.61%	10.19%	16.74%	5.04%
Italy	-13.79%	-22.05%	-34.10%	-33.61%	-1.79%	9.19%	4.76%
Japan	-9.75%	-17.60%	-22.10%	-26.83%	-3.88%	4.62%	3.99%
United Kingdom	-13.17%	-20.97%	-29.84%	-31.51%	-0.14%	8.56%	3.39%
United States	-9.17%	-8.98%	-19.17%	-21.73%	0.40%	5.37%	2.85%
Region							
World Index	-11.10%	-15.01%	-23.72%	-25.49%	1.32%	7.90%	4.28%
EAFE	-12.39%	-19.73%	-28.22%	-29.45%	1.91%	10.37%	5.52%
Emerging Markets (Free)	-15.66%	-26.93%	-35.43%	-33.07%	8.66%	19.03%	14.76%

World Equity Total Returns (in Local Currency)

	in Local Currency						
	As of 9/30/08			Annualized Ending 9/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morgan Stanley Capital International Indices							
Country							
Canada	-13.91%	-17.94%	-11.84%	-12.47%	5.70%	12.77%	10.99%
France	-9.89%	-9.02%	-25.11%	-26.60%	-1.34%	8.27%	4.91%
Germany	-10.33%	-10.89%	-28.30%	-26.70%	4.72%	12.44%	3.14%
Italy	-10.46%	-12.56%	-31.41%	-32.78%	-6.66%	5.17%	2.88%
Japan	-11.40%	-17.47%	-25.97%	-32.46%	-5.95%	3.56%	1.43%
United Kingdom	-12.38%	-11.76%	-21.65%	-21.71%	-0.40%	7.05%	2.90%
United States	-9.17%	-8.98%	-19.17%	-21.73%	0.40%	5.37%	2.85%
Region							
World Index	-10.29%	-11.09%	-22.21%	-24.49%	-0.22%	6.53%	3.46%
EAFE	-10.55%	-12.00%	-25.50%	-27.68%	-0.99%	7.72%	3.73%
Emerging Markets (Free)	-11.21%	-20.98%	-30.68%	-28.67%	8.48%	17.28%	15.55%

Sources: Bloomberg and Morgan Stanley Capital International (http://www.mscidata.com/)

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