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Total Return Review

Viewing the Markets from a Total Return Perspective

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Treasuries Vastly Outperform Stocks Over The Past 10 Years

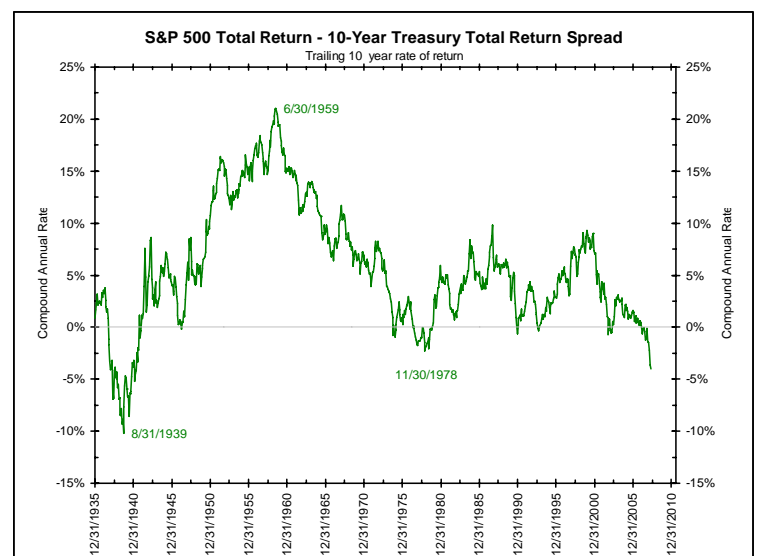
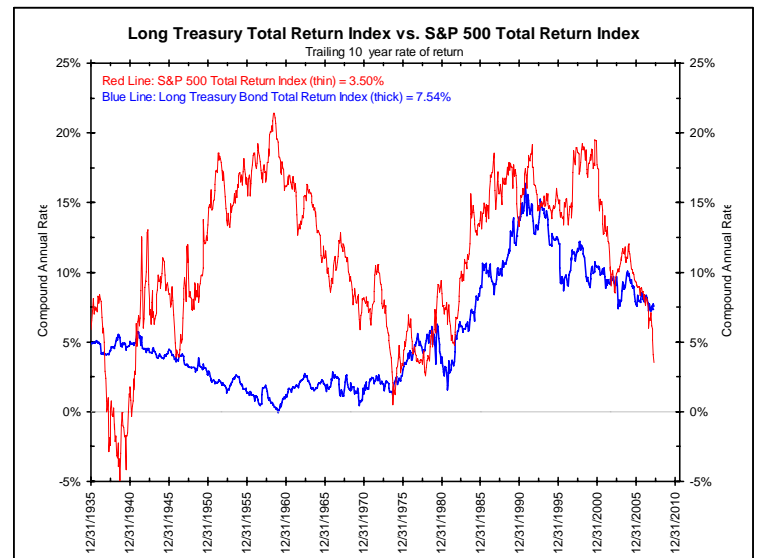
The average annualized return for the S&P 500 during the ten years ended in March 2008 was 3.50% (red line, first chart to the right). Not only is this well below the average annualized return of 11.08% for ten-year periods, but is **below** the 7.54% annualized return of Treasury bonds over the same period (blue line, first chart to the right).

The last time such a performance gap occurred in favor of Treasury bonds was in April 1941 (green line lower chart).

Even though flows tend to follow performance, mutual fund investors favored equity over fixed-income funds by about a 2.5:1 ratio, \$1.27 *trillion* versus \$512.21 *billion*; please see our latest [Mutual Fund Flows](#) report for details.

Is this rational behavior or irrational exuberance? A strong argument can be made for the former. When the inevitable equity rally comes, it tends to come very quickly; we have years of marketing literature telling us if we missed the best ten days of any decade we would spend the rest of our lives in regret. Finally, the simple mathematics of fixed-income returns argue against strong performance going forward when real Treasury yields are negative.

Who knows when the next secular bear market in bonds will arrive? Its appearance has been announced more or less continuously since June 2003. But by the time it is over, if the 1950-1981 experience is any indication, academic studies will argue that portfolios should include only cash and stocks; bonds will be derided as certificates of guaranteed confiscation. We suspect investors have it right by diversifying their portfolios in observed proportions even if the last 10 years have not panned out as they hoped.



U.S. Fixed Income Total Returns

	As of 4/30/08			Annualized Ending 4/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Treasury Cash:	0.09%	0.09%	1.09%	4.53%	4.51%	3.23%	3.74%
3 Month	0.14%	0.14%	1.12%	4.48%	4.50%	3.23%	3.71%
6 Month	0.04%	0.04%	1.45%	5.49%	4.88%	3.43%	3.85%
Treasury Coupons:	-1.51%	-1.51%	3.41%	11.50%	5.85%	4.25%	5.61%
2 Year	-0.43%	-0.43%	3.04%	9.10%	5.23%	3.55%	4.73%
5 Year	0.08%	0.08%	5.77%	13.84%	6.36%	4.55%	5.96%
10 Year	-2.60%	-2.60%	3.73%	11.75%	5.52%	4.65%	5.96%
30 Year	-3.11%	-3.11%	0.88%	10.22%	4.40%	5.42%	6.58%
Treasury Strips:	-2.53%	-2.53%	0.99%	9.04%	10.25%	7.10%	8.37%
5 Year	-2.29%	-2.29%	2.79%	10.65%	5.56%	4.24%	6.44%
10 Year	-2.33%	-2.33%	2.91%	10.74%	5.76%	5.64%	7.81%
15 Year	-1.72%	-1.72%	1.61%	8.53%	4.70%	6.13%	8.17%
20 Year	-3.00%	-3.00%	-0.45%	7.98%	3.95%	6.75%	8.31%
25 Year	-3.64%	-3.64%	-2.68%	7.23%	2.71%	6.60%	8.08%
Broad Indices							
Merrill Lynch Domestic Master	-0.43%	-0.43%	2.06%	7.17%	5.04%	4.46%	6.02%
Lehman Aggregate	-0.21%	-0.21%	1.95%	6.86%	4.93%	4.37%	5.96%
Lehman Government/Credit	-0.59%	-0.59%	1.93%	7.10%	4.82%	4.28%	6.00%
Government Indices							
Lehman Government	-0.86%	-0.86%	3.15%	9.93%	5.57%	4.44%	6.05%
Lehman Treasury	-1.72%	-1.72%	2.63%	9.73%	5.37%	4.34%	5.98%
Lehman Agency	-0.73%	-0.73%	2.47%	8.50%	5.41%	4.25%	5.96%
Agency Benchmarks							
2 Year	-0.77%	-0.77%	2.10%	7.59%	4.99%	3.70%	N/A
5 Year	-1.26%	-1.26%	2.91%	10.40%	5.82%	4.40%	6.46%
10 Year	-1.06%	-1.06%	3.30%	10.69%	6.14%	5.32%	N/A
30 Year	-0.38%	-0.38%	0.98%	9.13%	5.32%	6.06%	N/A
Other Indices							
Merrill Corporate	0.57%	0.57%	0.48%	2.77%	3.66%	4.11%	5.91%
Lehman Mortgage	0.10%	0.10%	2.54%	7.44%	5.44%	4.73%	5.94%
Lehman Inflation Notes ("TIPS")	-2.11%	-2.11%	2.96%	11.32%	5.32%	6.34%	7.92%
Merrill High Yield	4.17%	4.17%	1.00%	-0.83%	6.73%	8.23%	5.57%
Merrill Muncpal	1.33%	1.33%	0.50%	2.56%	3.68%	4.53%	5.54%

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, Ryan Labs, Lehman Brothers, Merrill Lynch and Arbor Research & Trading

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

Portfolio Type*	As of 4/30/08					
	MTD	Diff.	QTD	Diff.	YTD	Diff.
Bullet (4.94 Duration)	-2.29%		-2.29%		2.79%	
5 yr and 10 yr	-0.16%	2.12%	-0.16%	2.12%	5.58%	2.79%
5 yr and 30 yr	-0.01%	2.28%	-0.01%	2.28%	5.63%	2.85%
2 yr and 10 yr	-1.48%	0.81%	-1.48%	0.81%	3.37%	0.59%
2 yr and 30 yr	-0.99%	1.30%	-0.99%	1.30%	2.59%	-0.20%
Cash and 10 yr	-1.49%	0.80%	-1.49%	0.80%	2.67%	-0.12%
Cash and 30 yr	-0.81%	1.48%	-0.81%	1.48%	1.05%	-1.74%
Cash and 25 yr Strips	-0.59%	1.70%	-0.59%	1.70%	0.39%	-2.40%

*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 4/30/08			Annualized Ending 4/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
J. P. Morgan Government Bond Indices							
Country							
Canada	0.93%	0.93%	1.00%	17.62%	13.46%	14.09%	10.08%
France	-2.39%	-2.39%	8.36%	18.16%	8.42%	10.66%	8.57%
Germany	-2.43%	-2.43%	8.56%	18.60%	8.60%	10.81%	8.55%
Italy	-2.18%	-2.18%	8.24%	17.62%	8.36%	10.89%	8.77%
Japan	-6.30%	-6.30%	6.62%	16.25%	0.84%	3.17%	4.11%
United Kingdom	-1.96%	-1.96%	-0.27%	5.22%	5.15%	8.68%	7.37%
United States	-1.79%	-1.79%	2.66%	9.89%	5.48%	4.48%	6.11%
Region							
Europe	-2.28%	-2.28%	7.14%	16.19%	7.97%	10.48%	8.50%
Global	-3.37%	-3.37%	5.86%	14.81%	5.44%	7.03%	6.60%
Global Non-United States	-3.80%	-3.80%	6.77%	16.26%	5.40%	7.80%	6.61%
J. P. Morgan Emerging Markets Bond Indices							
EMBI Plus	1.23%	1.23%	1.70%	4.73%	10.04%	11.01%	9.96%
Region							
Latin	1.66%	1.66%	2.09%	3.35%	10.73%	11.81%	8.79%
Non-Latin	0.74%	0.74%	1.25%	6.65%	9.01%	9.83%	12.12%

World Fixed-Income Total Returns (in Local Currency)

	in Local Currency						
	As of 4/30/08			Annualized Ending 4/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
J. P. Morgan Government Bond Indices							
Country							
Canada	-0.94%	-0.94%	3.06%	7.19%	5.44%	6.29%	6.28%
France	-0.65%	-0.65%	1.76%	3.58%	1.86%	3.53%	4.77%
Germany	-0.70%	-0.70%	1.95%	3.97%	2.02%	3.67%	4.74%
Italy	-0.45%	-0.45%	1.65%	3.10%	1.80%	3.75%	4.99%
Japan	-1.62%	-1.62%	-0.26%	1.66%	0.71%	0.49%	1.70%
United Kingdom	-1.62%	-1.62%	0.24%	6.25%	3.89%	4.12%	5.56%
United States	-1.79%	-1.79%	2.66%	9.89%	5.48%	4.48%	6.11%
Region							
Europe	-0.73%	-0.73%	1.54%	3.92%	2.16%	3.73%	4.99%
Global	-1.25%	-1.25%	1.27%	4.63%	2.56%	3.03%	4.46%
Global Non-United States	-1.09%	-1.09%	0.87%	3.13%	1.70%	2.59%	3.86%

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

U. S. Equity Total Returns

	As of 4/30/08			Annualized Ending 4/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Broad Market							
Dow Jones Industrials ²	4.70%	4.70%	-2.63%	0.46%	10.47%	11.10%	5.67%
NASDAQ Composite ¹	5.90%	5.90%	-8.80%	-3.67%	8.73%	11.25%	2.44%
NASDAQ 100 ²	7.63%	7.63%	-7.89%	3.18%	11.03%	12.07%	4.63%
Russell 1000 ⁴	5.07%	5.07%	-4.89%	-4.62%	8.63%	11.23%	4.24%
Russell 2000 ⁴	4.19%	4.19%	-6.12%	-10.96%	8.62%	13.76%	5.33%
Russell 3000 ⁴	5.00%	5.00%	-4.99%	-5.16%	8.64%	11.40%	4.28%
S&P 500 (Capitalization Weighted) ³	4.87%	4.87%	-5.03%	-4.68%	8.23%	10.62%	3.89%
S&P 500 (Equal Weighted) ¹	5.26%	5.26%	-3.84%	-9.01%	8.94%	14.02%	7.56%
S&P 400 MidCap ³	7.70%	7.70%	-1.83%	-2.77%	11.19%	15.19%	9.64%
S&P 600 SmallCap ³	4.01%	4.01%	-3.75%	-9.04%	8.77%	14.74%	7.42%
Wilshire 5000 ¹	4.98%	4.98%	-5.01%	-4.87%	8.92%	11.78%	4.34%
Interest Rate Sensitive							
PSE Electric Utility Index ²	5.28%	5.28%	-5.11%	-0.65%	13.36%	19.45%	9.69%
KBW Bank Stock Index ²	5.15%	5.15%	-5.18%	-25.67%	-1.85%	4.40%	2.56%
S&P 500 Financial Index ²	6.53%	6.53%	-8.34%	-26.17%	0.39%	5.28%	3.17%
Other Indices							
Morgan Stanley Consumer Index ²	1.10%	1.10%	-5.22%	-3.15%	8.74%	9.56%	5.47%
Morgan Stanley Cyclical Index ²	4.75%	4.75%	-2.22%	0.23%	14.35%	18.72%	8.27%
S&P 500/Barra Growth ³	5.95%	5.95%	-4.56%	-0.33%	7.68%	8.70%	2.64%
S&P 500/Barra Value ³	3.73%	3.73%	-5.54%	-8.74%	8.84%	12.59%	4.78%
Gold/Silver Stock Index ²	-3.03%	-3.03%	-0.95%	25.91%	28.40%	23.04%	8.63%

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 4/30/08			Annualized Ending 4/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Commodity Total Return Indices							
Reuters/CRB ¹	5.90%	5.90%	14.86%	35.55%	14.86%	14.91%	6.52%
Goldman Sachs Commodity ²	7.96%	7.96%	18.68%	50.08%	14.83%	19.34%	12.53%
Dow Jones-AIG Commodity	3.56%	3.56%	13.51%	24.70%	15.71%	16.67%	10.92%
Rogers International Commodities ³	3.00%	3.00%	15.41%	44.32%	19.47%	23.67%	16.29%
Brookshire International Raw Materials	4.31%	4.31%	15.84%	38.54%	21.59%	26.00%	N/A

Sources: ¹ Reuters/CRB (<http://www.crbindex.com/crbindex/>)

² Goldman Sachs (<http://www.gs.com/gsci/>)

³ Beeland Management Co., L.L.C.

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

	in U.S. Dollars						
	As of 4/30/08			Annualized Ending 4/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morgan Stanley Capital International Indices							
Country							
Canada	7.09%	7.09%	0.69%	19.70%	26.81%	27.82%	13.50%
France	4.57%	4.57%	-4.15%	-1.75%	18.87%	21.85%	8.81%
Germany	4.64%	4.64%	-7.59%	7.18%	26.60%	27.54%	7.64%
Italy	6.26%	6.26%	-6.20%	-7.49%	12.99%	19.18%	7.41%
Japan	7.27%	7.27%	-1.05%	-6.59%	10.02%	16.92%	4.35%
United Kingdom	6.47%	6.47%	-4.73%	-4.01%	13.05%	17.80%	5.14%
United States	4.95%	4.95%	-4.84%	-4.23%	8.54%	10.84%	3.78%
Region							
World Index	5.34%	5.34%	-4.09%	-1.96%	12.91%	15.74%	5.47%
EAFE	5.56%	5.56%	-3.76%	-1.31%	16.74%	20.92%	7.05%
Emerging Markets (Free)	8.13%	8.13%	-3.68%	25.71%	34.27%	35.76%	13.54%

World Equity Total Returns (in Local Currency)

	in Local Currency						
	As of 4/30/08			Annualized Ending 4/30/08			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morgan Stanley Capital International Indices							
Country							
Canada	5.12%	5.12%	2.75%	9.08%	17.84%	19.09%	9.58%
France	6.43%	6.43%	-9.99%	-13.88%	11.68%	14.00%	5.00%
Germany	6.50%	6.50%	-13.22%	-6.05%	18.94%	19.33%	3.87%
Italy	8.14%	8.14%	-11.91%	-18.91%	6.15%	11.78%	3.68%
Japan	12.63%	12.63%	-7.43%	-18.31%	9.87%	13.88%	1.94%
United Kingdom	6.85%	6.85%	-4.24%	-3.08%	11.69%	12.85%	3.38%
United States	4.95%	4.95%	-4.84%	-4.23%	8.54%	10.84%	3.78%
Region							
World Index	5.63%	5.63%	-6.82%	-7.39%	10.43%	12.70%	4.01%
EAFE	7.58%	7.58%	-8.42%	-10.60%	12.75%	14.89%	4.04%
Emerging Markets (Free)	7.26%	7.26%	-4.47%	20.52%	30.95%	31.11%	14.36%

Sources: Bloomberg and Morgan Stanley Capital International (<http://www.msdata.com/>)

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