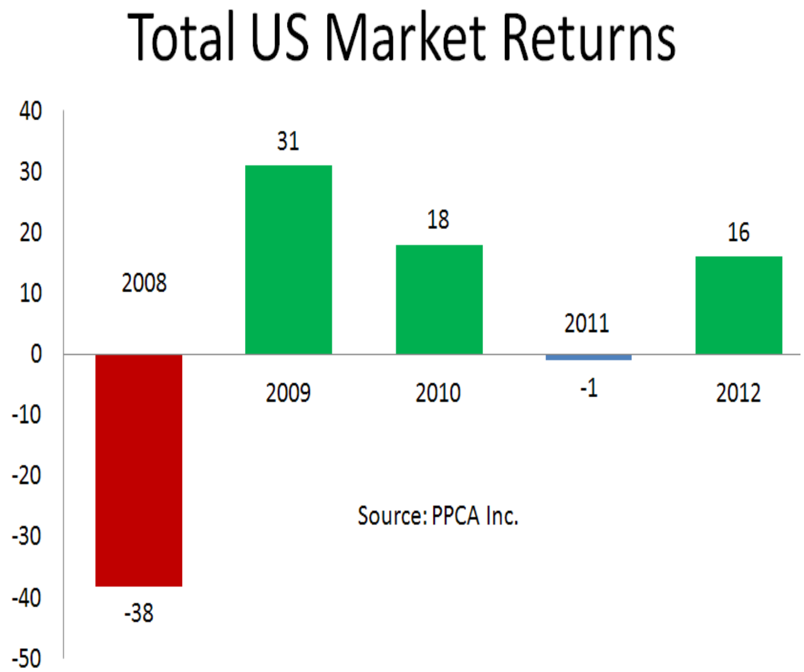
2012: Resumption of the Stock Market Recovery

By Ronald Surz
January 8, 2013

Never test the depth of the water with both feet.
African Proverb

After feasting on the U.S. stock market's 54% run-up from 2009 to 2010, we starved for performance in 2011, suffering a 1% loss. Some said the markets were due for a respite, so this lull was healthy, but I felt we were lucky that results weren't much worse, as they were outside the U.S., and that 2012 would be a disappointment.



I was wrong.

Stock markets both here and abroad had a good year in 2012. So is now the time to get back into the stock market? Are you ready to jump in with both feet?

I'm not.

Let's take a close look at the details of what occurred in 2012 so we can assess the opportunities and prepare for the surprises that 2013 will bring. In particular, let's look at momentum and reversal possibilities coming into 2013. I'll give you my opinions, and you should form your own.

Here are a couple of facts worth noting about 2012. As discussed in my [Q3 commentary](), investors bailed from equity mutual funds, which should have depressed stock prices, but corporate-share buybacks more than offset this exodus. Also, much of the stock mutual fund redemptions found their way into stock ETFs, a move from active to passive management.

We should not forget the losses sustained in 2008. Despite popular perception, we have just now recovered 2008 losses; the 54% 2009-2010 gain did not offset the 38% loss in

2008. But 2012 has brought the U.S. stock market back into positive territory, with a 3% cumulative return for the five years 2008-2012. We're above break-even.

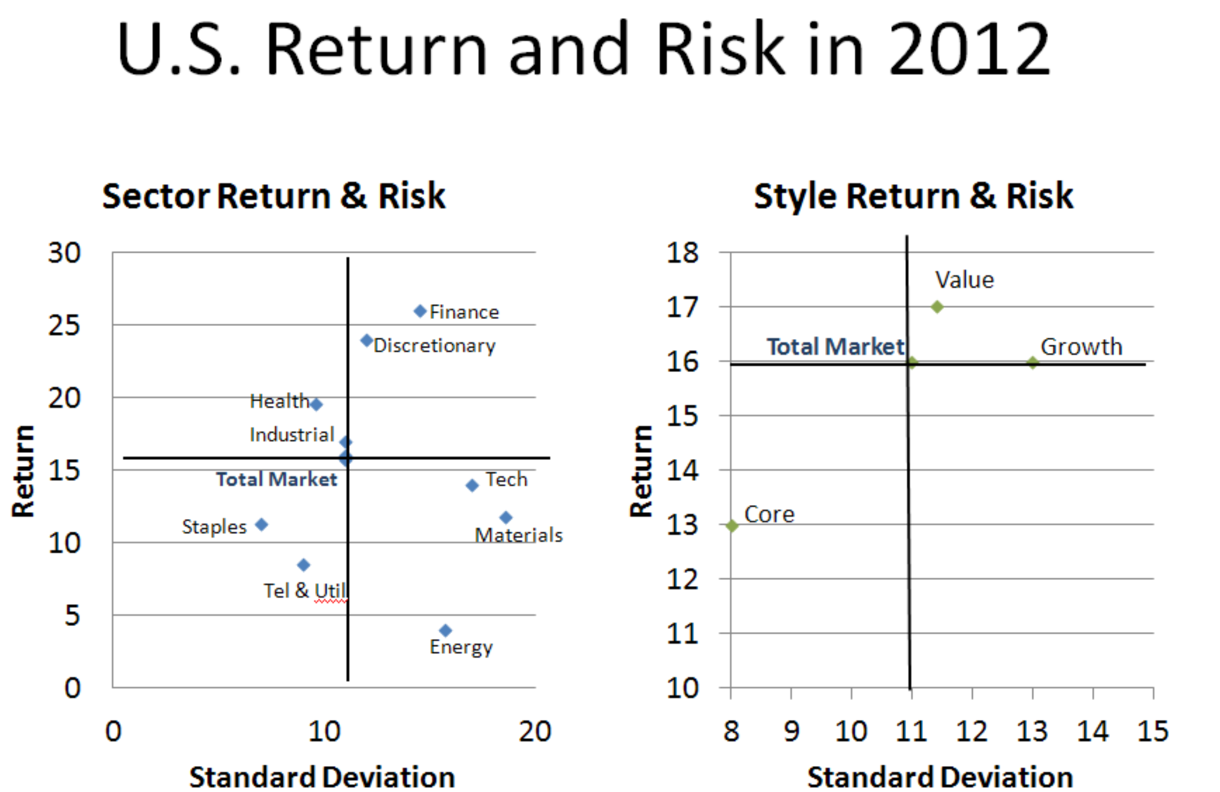
I begin with a review of the lessons learned in 2012 around the globe and then extend the perspective to the longer-term history of U.S. markets over the past 87 years. My goal is to arm you for thoughtful investment decisions.

The year 2012 in review

I'll review the year by analyzing what has worked and what has not. I begin with risk and reward for sectors and styles and then drill down further by examining the cross-sections of styles and sectors, using heat maps to identify trends.

U.S. stock market

I begin with an analysis of the risks and rewards in 2012, as shown in the following chart, and use this to form my outlook for 2013. The total U.S. stock market returned 16% in 2012, matching the S&P 500's return. In the following, I show total market results for 5,000 companies rather than just the S&P 500's 500 companies.



Here are some observations from this graph:

1. Infrastructure stocks – energy and materials – have lagged the total market and have exhibited higher risk. These sectors have disappointed on a relative basis, despite expectations that government spending would favor them. I think these stocks are still a good play, especially if China and India resume their growth.

2. Telephones-and-utilities have lagged the market, but with lower risk. No news here – performance as usual.

3. Healthcare has dominated the market on a risk-adjusted basis, providing a 20% return with below market risk. Medical companies have been among the largest share repurchasers. Obamacare will matter in 2013 and beyond, benefitting some segments of the healthcare market, like pharmaceuticals, and undermining others, like health insurers.

4. Financials recovered in 2012, returning more than 25%, albeit with relatively high risk, which is uncharacteristic for this sector. This performance is a reversal of the previous four years, during which financials lost 42% while the rest of the market was flat. As described in my 2011 commentary, the style classifications of fallen financials have distorted some benchmarks, until 2012 when distressed financials were once again properly classified as value stocks. But the safety implied in the word "value" is offset by the fact that we are likely to see increases in interest rates in 2013, which will hurt banks because they invest long and borrow short. Accordingly, I think financials will once again disappoint in 2013.

5. Consumer discretionary stocks were the next best performing, after financials, with risk near the market. Investors perceived that consumers had sacrificed long enough, saving more and spending less, at least those with jobs. Christmas spending did not confirm this perception, with spending roughly the same as 2011. I would not expect consumer discretionary stocks to continue to lead in 2013.

6. Technology stocks did not deliver returns commensurate with their risk. As shown below, large-value technology stocks were a drag on performance in the year, and I think these stocks will come back in 2013.

7. Consumer staples underperformed the market with less risk. Look for these companies to defend well if we see another recession. We have to eat.

8. Core stocks, defined as those in between value and growth, have stood still, with relatively low risk and low return, while value and growth stocks have taken off. This suggests that investors have style conviction but disagree, with some liking value while others like growth. Core frequently performs better or worse than both value and growth, much like mid-cap frequently performs better or worse than both large and small. This pattern usually reverses, so I'd expect core to move to a more natural position in 2013 between value and growth. I use Surz Style Pure style definitions throughout this commentary.

9. Value outperformed growth, although growth was riskier. Value investing does dominate over long periods, despite the risk incongruity. Given the uncertainties facing the U.S. economy with the debt crisis and the possibility of another recession, value gets my vote over core and growth in 2013, as a flight to safety.

Next I look at style-sector cross-sections to hone in on what is hot and what is not. The following heat map provides insights for both quantitative and fundamental investors. The cells show performance in 2012. For example, the cell in the upper left corner, reading 13.9%, says that large value (LGVL) stocks in the consumer staples (STAP) sector earned 13.9% in 2012.

Many quantitative managers employ momentum in their models. See the bibliography at the end of this commentary for articles that describe the exploitation of momentum effects. Fundamental managers use heat maps as clues to segments of the market that are worth exploring, for both momentum and reversals. A heat map shows shades of green for "good," which in this case is good performance relative to the total market. By contrast, shades of red are bad, indicating underperformance. Yellow is neutral. The idea is to focus on the dark greens and dark reds for clues on momentum and reversals. Can we expect more of the same in 2013, or an inflection point?

	STAP	DISC	HLTH	MATL	TECH	ENER	INDU	UTEL	FINC	TOTL
LGVL	13.9	32.1	23.6	11	-6.9	5.3	19.1	4.6	27.2	16.2
LGCO	5.9	26.9	13	-2.1	15.7	1.9	7.7	13	26	10.8
LGGR	11.2	26.4	20.4	9.4	19.9	2.2	11.1	-4	27.8	16.9
MDVL	12.3	27.1	24	25.5	11.1	5.7	25.6	3.9	22.7	17.8
MDCO	21	20.6	15.5	21.1	10.3	5.2	16.7	-5	16.5	15.2
MDGR	5.1	15	24.5	0.3	12.4	0.7	19.6	35.3	18	13.8
SCVL	13	22.2	22.5	27.6	14.3	3.9	26.5	5.3	21.6	19.6
SCCO	25.2	15.2	29.3	4.3	16.4	2.4	18.3	2	27.3	17.8
SCGR	-3	21.8	22.4	-3	2.1	-10.3	18.5	18.9	33.3	11.9
TOTL	11.1	24	19.5	11.8	13.8	3.8	17.3	8.8	25.9	15.8

As you can see, there are 81 cells of potential interest, with key observations (dark red & dark green) as follows:

Winners	Losers
Large consumer discretionary companies. I don't think this market leadership will continue into 2013.	Energy stocks. I think these stocks will do better in 2013 as industrial demand increases.
Large and small financials, but not mid-cap financials. I doubt this will continue.	Telephones-&-Utilities, with the exception of mid-cap growth. Likely to continue on a smooth, steady path.
Small health care companies. Selective companies should continue to do well.	Technology, except large growth. I think large value technology stocks will come back in 2013. Stocks like Hewlett Packard and Dell.

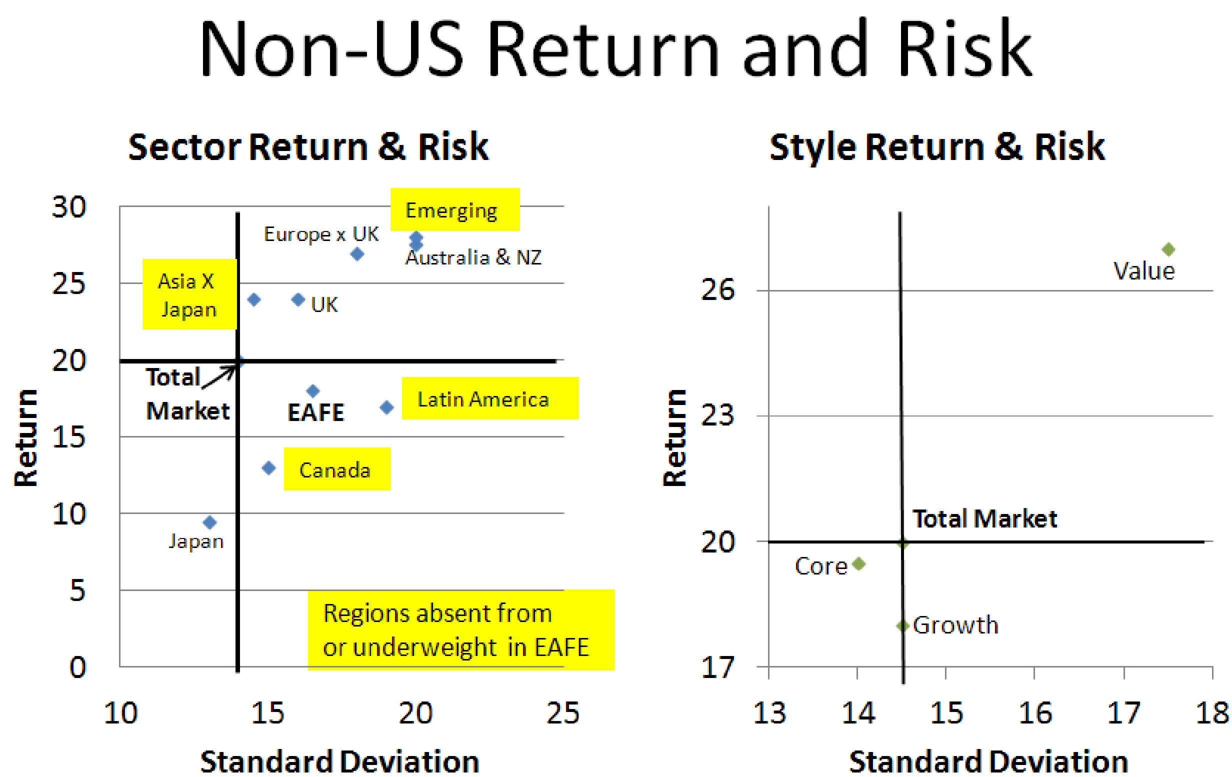
Drilling down even deeper, we can identify the biggest, best and worst performing stocks in the S&P 500 for 2012, as shown in the following chart. Financial stocks dominated the biggest contributors, while technology and energy were the biggest detractors.

Description	Identifier	Sector	Style	Weight	Return	Impact
Largest Holdings						
APPLE INC	AAPL	Information Technology	Large Cap Growth	4.32%	32.52	1.12
EXXON MOBIL CORP	XOM	Energy	Large Cap Value	3.29%	4.77	0.22
INTL BUSINESS MACHINES CORP	IBM	Information Technology	Large Cap Growth	1.83%	5.95	0.15
MICROSOFT CORP	MSFT	Information Technology	Large Cap Core	1.81%	5.83	0.17
GENERAL ELECTRIC CO	GE	Industrial	Large Cap Core	1.72%	21.20	0.36
CHEVRON CORP	CVX	Energy	Large Cap Value	1.72%	5.04	0.12
AT&T INC	T	Telecom-Utilities	Large Cap Core	1.61%	17.45	0.29
JOHNSON & JOHNSON	JNJ	Health Care	Large Cap Core	1.49%	10.84	0.18
PROCTER & GAMBLE CO/THE	PG	Consumer Staples	Large Cap Core	1.47%	5.28	0.06
PFIZER INC	PFE	Health Care	Large Cap Core	1.41%	20.43	0.28
				20.67%		**2.95**
10 Largest Contributors						
APPLE INC	AAPL	Information Technology	Large Cap Growth	4.32%	32.52	1.12
BANK OF AMERICA CORP	BAC	Finance	Large Cap Growth	0.69%	109.77	0.62
COMCAST CORP-CLASS A	CMCSA	Consumer Discretionary	Large Cap Growth	0.68%	60.60	0.42
CITIGROUP INC	C	Finance	Large Cap Value	0.73%	50.53	0.41
WELLS FARGO & CO	WFC	Finance	Large Cap Value	1.37%	27.38	0.40
JPMORGAN CHASE & CO	JPM	Finance	Large Cap Value	1.19%	36.15	0.38
GENERAL ELECTRIC CO	GE	Industrial	Large Cap Core	1.72%	21.20	0.36
AT&T INC	T	Telecom-Utilities	Large Cap Core	1.61%	17.45	0.29
HOME DEPOT INC	HD	Consumer Discretionary	Large Cap Growth	0.65%	50.25	0.28
PFIZER INC	PFE	Health Care	Large Cap Core	1.41%	20.43	0.28
				14.37%		**4.58**
10 Largest Detractors						
HEWLETT-PACKARD CO	HPQ	Information Technology	Large Cap Value	0.34%	-43.08	-0.15
OCCIDENTAL PETROLEUM CORP	OXY	Energy	Large Cap Value	0.59%	-16.15	-0.09
MCDONALD'S CORP	MCD	Consumer Discretionary	Large Cap Core	0.77%	-9.28	-0.08
TYCO INTERNATIONAL LTD	TYC	Industrial	Large Cap Core	0.19%	-1.43	-0.08
INTEL CORP	INTC	Information Technology	Large Cap Value	1.03%	-11.82	-0.07
DELL INC	DELL	Information Technology	Large Cap Value	0.16%	-29.59	-0.06
EXELON CORP	EXC	Telecom-Utilities	Large Cap Value	0.24%	-27.28	-0.05
NEWMONT MINING CORP	NEM	Materials	Large Cap Growth	0.21%	-20.44	-0.04
BAKER HUGHES INC	BHI	Energy	Large Cap Core	0.16%	-14.90	-0.03
APACHE CORP	APA	Energy	Large Cap Value	0.28%	-12.70	-0.03
				3.97%		**-0.67**

Source: StokTrib

Non-U.S. stock market

Now let's turn our attention outside the U.S., where the total foreign market earned 20%, outperforming the 16% return for the U.S. The Europe Australia and Far East (EAFE) index performed somewhat worse than the total foreign market, earning 18%. The following chart shows the performance and risk (standard deviation) of non-U.S. regions and styles for the year, using the total market.



Here are some observations from this graph:

1. The EAFE index underperformed the total foreign market primarily because it has no allocation to emerging markets, the best performing region. It is also riskier because it is not as diversified as the total foreign market.

2. Emerging markets performed best, returning more than 27%, and this region had the highest standard deviation of monthly returns, alongside Australia and New Zealand. Investors are fleeing the U.S. and other economies that are suffering from the economic crisis.

3. Japan has performed worst, with a 9.5% return, and has the lowest risk. Japan's problems began in the early 1990s when its real-estate bubble burst. Twenty years of suffering sets the stage for a Japanese recovery and better relative performance in 2013. As shown below, Japan is priced to sell.

4. The total market has lower risk than every region except Japan. This is a manifestation of the benefit of diversification.

5. Surprisingly, value stocks have been the most volatile, and they have had the highest return. Value stocks are usually less volatile than growth stocks, but not this year. Growth stocks lagged in performance as they did in the U.S. Core stocks have performed in between value and growth, but with less risk than both. Investors are seeking safety outside the U.S., favoring value stocks

I also examine the cross-sections of styles-sectors-countries in the following heat maps.

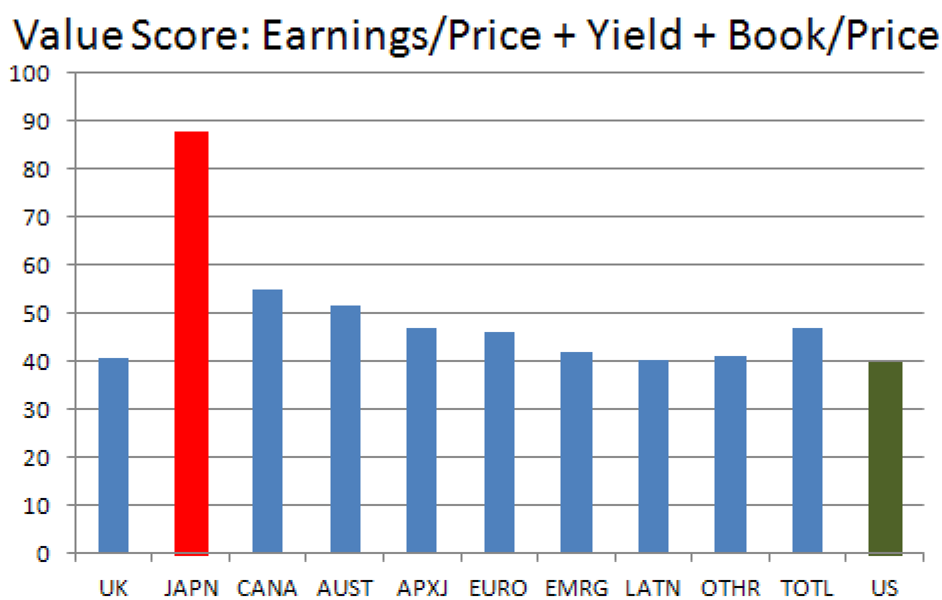
	STAP	DISC	HLTH	MATL	TECH	ENER	INDU	UTEL	FINC	TOTL
LGVL	15.8	37.3	20.8	21	9.2	12.6	24.5	11.9	36.7	25.6
LGCO	22.8	18	18.4	11.1	21	16.6	22	12	25.2	19.2
LGGR	26.2	28	23.8	5	24.2	0.3	15.5	37.1	31.6	20.2
MDVL	31.7	27.1	28.5	20	20.2	20.3	27.5	19.1	36.8	28.4
MDCO	24.3	24.8	25.5	10.5	15.8	15	20.6	20.6	25.4	21.2
MDGR	28	21.9	27.6	3.7	11.8	-2.8	13.4	5.6	22	15.3
SCVL	25.2	29.5	41.9	19.9	26	17.8	26.3	40	38.2	29.6
SCCO	22.3	20.6	30.8	15.2	20.2	3.2	16.2	5.4	27.4	20
SCGR	17.3	15.1	22.9	-3.2	4.3	3.1	12.7	5.8	16.8	10.5
UK	23.8	40.5	11.1	15.1	42	3.5	32.5	17.1	44.8	23.8
JAPN	8.1	12.7	7.6	0.7	-0.5	-8.4	7.6	-5.8	33.7	9.5
CANA	24.6	25.9	28.8	-3.5	6.3	2.9	21.9	16.2	25.8	13.2
AUST	30.2	36.3	50.2	6	38.7	4	20	44.1	39.6	27.5
APXJ	19.9	19.8	23.1	9.5	28.4	16.1	16.5	26.5	33	23.7
EURO	28.8	39.2	32.1	30.6	32.3	13	26.8	4.7	31.1	26.7
EMRG	35.3	39.5	27.4	21.5	7.3	21.7	25	31.6	30.8	27.5
LATN	23.5	13.8	22.2	17.7	32.1	-21.2	35.8	3.4	26	17.1
OTHR	13.4	20.3	1.1	9.5	16.5	21.1	23.9	26.9	47.8	23.6
TOTL	23.8	26.2	23.6	13.8	20.2	9.9	20.6	15.6	33.4	20.2

	UK	JAPN	CANA	AUST	APXJ	EURO	EMRG	LATN	OTHR	TOTL
LGVL	25.7	18.1	20.1	37.1	30	25.2	25.2	9.3	49.1	25.6
LGCO	22.1	-5.3	15.5	25	21.4	25.8	14.8	15.5	28.3	19.2

LGGR	14.6	14.2	2.9	6.8	20.9	32.2	37.9	11.1	16.6	20.2
MDVL	38.5	9.4	14.1	27.5	31.7	27.5	34.3	26.2	30.4	28.4
MDCO	46.4	1.8	14.4	23.8	21.8	26.8	26.7	39.5	19.6	21.2
MDGR	31	3.7	7.9	8.2	13.2	28.9	21.6	19.6	10	15.3
SCVL	43.1	16.4	18.6	43.8	33.5	24.5	34.8	25.1	27.7	29.6
SCCO	43.6	9.3	18.2	23.6	25	19.9	23.4	16.2	14.3	20
SCGR	18.1	5.4	-5.1	-2.5	10.7	9.1	21.3	5.4	9.1	10.5
TOTL	23.8	9.5	13.2	27.5	23.7	26.7	27.5	17.1	23.6	20.2

Key observations are as follows:

Winners	Losers
Financial stocks in all styles and countries. Like the U.S., this is a reversal that I doubt will continue in 2013.	Japan, especially energy and utilities, precipitated by their nuclear disaster. Despite the setbacks, the long suffering in Japan has positioned it as a deep value play – a bargain. See chart below. I expect better relative performance in 2013. .
Smaller companies in the UK, especially financials and consumer discretionary. Market leadership is likely to turn to countries less affected by the economic crisis, like Australia, Latin America and Emerging Markets.	Energy & Material stocks across the board. Infrastructure spending in 2013 will reverse this trend. I think infrastructure spending will increase.



As in the U.S. analysis above, we can review the biggest, best and worst performing stocks in the EAFE index, as shown in the next table. Unlike the U.S., there are no clear sector patterns.

Description	Sector	Style	Weight	Return	Impact
Largest Holdings					
ROYAL DUTCH SHELL PLC-A SHS	Energy	Large Cap Value	4.60%	-0.48	-0.49
NESTLE SA-REG	Consumer Staples	Large Cap Core	2.18%	21.02	0.46
RIO TINTO PLC	Materials	Large Cap Core	1.88%	22.63	-0.17
VODAFONE GROUP PLC	Telecom-Utilities	Large Cap Value	1.77%	-3.44	-0.45
BP PLC	Energy	Large Cap Value	1.70%	4.80	-0.68
HSBC HOLDINGS PLC	Finance	Large Cap Value	1.55%	47.96	0.44
GLAXOSMITHKLINE PLC	Health Care	Large Cap Value	1.46%	0.47	0.00
TOYOTA MOTOR CORP	Consumer Discretionary	Large Cap Growth	1.37%	41.30	0.61
ROCHE HOLDING AG-GENUSSCHEIN	Health Care	Large Cap Value	1.35%	28.11	0.29
TOTAL SA	Energy	Large Cap Value	1.34%	8.80	0.10
			19.20%		**0.11**
10 Largest Contributors					
TOSHIBA CORP	Information Technology	Large Cap Core	0.20%	-4.29	2.50
TOYOTA MOTOR CORP	**Consumer Discretionary**	**Large Cap Growth**	**1.37%**	**41.30**	**0.61**
COMMONWEALTH BANK OF AUSTRAL	Finance	Large Cap Value	0.93%	45.10	0.47
NESTLE SA-REG	**Consumer Staples**	**Large Cap Core**	**2.18%**	**21.02**	**0.46**
HSBC HOLDINGS PLC	**Finance**	**Large Cap Value**	**1.55%**	**47.96**	**0.44**
INPEX CORP	Energy	Large Cap Value	0.18%	-13.85	0.41
ENI SPA	Energy	Large Cap Value	0.68%	27.56	0.38
CENTRICA PLC	Telecom-Utilities	Large Cap Core	0.33%	33.25	0.38
ANHEUSER-BUSCH INBEV NV	Consumer Staples	Large Cap Growth	0.76%	46.67	0.37
TESCO PLC	Consumer Staples	Large Cap Value	0.24%	-4.35	0.30
			8.42%		**6.30**
10 Largest Detractors					
BP PLC	**Energy**	**Large Cap Value**	**1.70%**	**4.80**	**-0.68**
ROYAL DUTCH SHELL PLC-A SHS	**Energy**	**Large Cap Value**	**4.60%**	**-0.48**	**-0.49**
VODAFONE GROUP PLC	**Telecom-Utilities**	**Large Cap Value**	**1.77%**	**-3.44**	**-0.45**
BG GROUP PLC	Energy	Large Cap Value	0.91%	-20.07	-0.44
ANGLO AMERICAN PLC	Materials	Large Cap Value	0.58%	-13.40	-0.25
RIO TINTO PLC	**Materials**	**Large Cap Core**	**1.88%**	**22.63**	**-0.17**
SAP AG	Information Technology	Large Cap Growth	0.76%	55.82	-0.15
BANCO SANTANDER SA	Finance	Large Cap Value	0.81%	21.41	-0.12
HITACHI LTD	Information Technology	Large Cap Value	0.33%	11.52	-0.11
SONY CORP	Consumer Discretionary	Large Cap Core	0.19%	-37.61	-0.10
			13.53%		**-2.96**

Source: StokTrib

Before I turn to my customary review of the past 87-year history of the U.S. capital markets, we have an important announcement to make.

PRESS RELEASE

January 8, 2013

Patent Issued To Target Date Solutions For Pioneering Target Date Glide Path Design

San Clemente, Calif. January 8, 2013 – Target Date Solutions, a leader in target date fund research and design, was awarded a patent today for the methodology in its Safe Landing Glide Path® (SLGP). The SLGP process integrates the tenets of Modern Portfolio Theory with the disciplines of risk management and liability-driven investing. For details, see U.S. Patent No. 8352349, available at the U.S. Patent Office (patents.uspto.gov) and Patent 8352349.

The principal objective of SLGP is the preservation of capital, especially near the target date, thereby protecting investors on the cusp of retirement. A two-asset separation principle distinguishes the glide path from all others. When the target date is distant, a world portfolio is used to optimize return per unit of risk, encompassing a globally defined mix of the major asset classes, including stocks, bonds, real estate and commodities. As the target date nears, account balances are increasingly placed in a safe "reserve asset" that's comprised of inflation-indexed Treasury securities (TIPS) and Treasury bills. As a result, the fund is almost entirely in reserves at the target date, an essential feature that's often ignored in most target date funds.

The patent was issued to Ronald Surz, President of Target Date Solutions and its parent company, PPCA Inc. "The elegant yet effective financial engineering embodied in the SLGP is both appropriate and optimal for the investors and fiduciaries who choose target date funds," says Surz. "The benefits of target date funds are diversification and risk control (professional management), preferably at a reasonable cost. The SLGP enhances those features through a process of systematically optimizing risk management."

The SLGP has been available since 2008 as the glide path employed by SMART Funds®, which are offered by Hand Benefit & Trust in Houston. Hand has also developed a new "Ultimate Target Date Fund Family" that follows the SLGP at a very low cost.

For further information please visit http://www.targetdatesolutions.com
or contact Ronald Surz at (949)488-8339 Ron@TargetDateSolutions.com

Now let's return to the commentary and the long term 87-year history of stocks, bonds, T-bills, and inflation.

The 87-year history of the U.S. capital markets

The following table shows the history of risk and return for stocks (S&P 500), bonds (Citigroup high grade), T-bills and inflation. There are many lessons in this table, so it's worth your time and effort to review these results. For example, here are a few of the lessons:

1. T-bills paid less than inflation in 2012, earning 0.08% in a 1.43% inflationary environment. We paid the government to use their mattress.

2. Bonds were more "efficient," delivering more returns per unit of risk than stocks in the first 43 years, but they have been about as efficient in the most recent 44 years. The Sharpe ratio for bonds is .56 versus .38 for stocks in the first 43 years, but the Sharpe ratio for both is about the same in the more recent 44 years, at .25 for stocks and .29 for bonds.

3. The past decade has been the second worst for stocks across the past eight consecutive 10-year periods. The decade 1963-1972 was slightly worse.

4. Average inflation in the past 44 years has been about 2.5 times that of the previous 43 years: 1.65% in 1926-1968 versus 4.38% in 1969-2012.

5. Long-term high-grade corporate bonds fared very well in the last three years, which is surprising in light of low interest rates. America has benefitted from confidence in the U.S. dollar, resulting in material decreases in interest rates. It's a "Limbo" market: How low can you go? (The "Limbo" is a dance contest where participants attempt to pass below an extended pole that is progressively lowered.)

MARKET HISTORY FOR PERIODS ENDING DECEMBER

	stocks			bonds			t-bills		cpi	
	RETURN	STNDEV	SHARPE	RETURN	STNDEV	SHARPE	RETURN	STNDEV	RETURN	STNDEV
2012(1 Year)	15.98	10.52	1.51	5.00	2.19	2.24	.08	.02	1.43	1.21
1926-2012(87 YRS)	9.84	19.08	.32	6.25	7.38	.35	3.58	.88	3.02	1.83

1926-1968(43 YRS)	10.22	22.12	.38	4.16	4.20	.56	1.73	.45	1.65	2.22
1969-2012(44 YRS)	9.47	15.56	.25	8.32	9.47	.29	5.42	.91	4.38	1.24
1933-1942(10 YRS)	9.35	28.92	.32	8.08	3.82	2.08	.13	.06	2.61	2.34
1943-1952(10 YRS)	17.09	13.35	1.21	2.12	2.21	.58	.81	.15	4.69	2.88
1953-1962(10 YRS)	13.44	13.05	.84	3.73	5.57	.27	2.19	.25	1.30	.79
1963-1972(10 YRS)	9.93	11.91	.43	3.04	6.40	-.23	4.60	.34	3.42	.66
1973-1982(10 YRS)	6.68	16.74	-.10	6.06	12.25	-.18	8.46	.90	8.67	1.26
1983-1992(10 YRS)	16.17	15.75	.54	12.94	8.46	.64	7.14	.55	3.80	.74
1993-2002(10 YRS)	9.36	15.59	.30	8.27	5.30	.69	4.50	.37	2.63	.57
2003-2012(10 YRS)	7.05	14.76	.35	6.81	10.91	.45	1.74	.53	2.44	1.49
1928-1932(5 YRS)	-12.47	40.71	-.36	4.44	4.46	.42	2.48	.52	-5.42	2.18
1933-1937(5 YRS)	14.29	31.10	.45	10.84	4.71	2.25	.22	.06	2.01	2.43
1938-1942(5 YRS)	4.62	26.75	.17	5.40	2.48	2.15	.05	.05	3.21	2.25
1943-1947(5 YRS)	14.85	13.70	1.05	2.17	1.74	1.02	.37	.03	6.77	3.47
1948-1952(5 YRS)	19.37	13.08	1.37	2.06	2.61	.31	1.25	.10	2.65	2.01
1953-1957(5 YRS)	13.57	13.40	.84	4.01	6.95	.29	1.97	.24	1.27	.91
1958-1962(5 YRS)	13.31	12.80	.83	3.45	3.77	.27	2.40	.24	1.33	.67
1963-1967(5 YRS)	12.38	9.78	.83	.30	4.17	-.83	3.90	.18	2.23	.59
1968-1972(5 YRS)	7.54	13.77	.15	5.85	8.00	.07	5.30	.35	4.61	.56
1973-1977(5 YRS)	-.20	17.30	-.35	6.29	8.21	.01	6.18	.39	7.89	1.09
1978-1982(5 YRS)	14.05	16.07	.18	5.83	15.34	-.30	10.79	.85	9.46	1.38
1983-1987(5 YRS)	16.47	17.94	.46	13.74	10.21	.56	7.67	.48	3.43	.75
1988-1992(5 YRS)	15.88	13.36	.65	12.13	6.33	.82	6.61	.58	4.17	.72
1993-1997(5 YRS)	20.25	10.67	1.41	8.25	5.87	.59	4.66	.29	2.76	.43
1998-2002(5 YRS)	-.55	19.05	-.25	8.29	4.70	.81	4.34	.43	2.51	.69
2003-2007(5 YRS)	12.87	8.61	1.10	5.17	8.56	.24	3.06	.49	3.13	1.27
2008-2012(5 YRS)	1.53	19.02	.06	8.48	12.90	.62	.43	.21	1.75	1.67

Source: PPCA Inc.

Additional perspective is provided by the following histograms of stock and bond returns.

87-Year Return History for Common Stocks
(Adjusted for Inflation)

1926-2012

Average Annually Compounded Real Return = 6.9%

					2012				
					2010				
					2006				
					1999				
					1996				
					1988				
					1986				
					1983				
				2007	1982	2009			
				2005	1980	2003			
				2004	1976	1998			
		2001	2011	1993	1972	1991			
		2000	1994	1992	1971	1989			
		1981	1990	1987	1965	1985			
		1977	1978	1984	1964	1975	1997		
		1969	1970	1979	1959	1967	1995		
		1966	1962	1968	1952	1963	1955		
2008	2002	1957	1960	1956	1951	1961	1945		
1974	1973	1941	1953	1948	1944	1950	1938	1958	
1937	1946	1940	1947	1939	1942	1949	1936	1935	1954
1931	1930	1929	1934	1932	1926	1943	1927	1928	1933

-30 -20 -10 0 10 20 30 40 50

Rates of Real Return (%)

87-Year Return History of Long-Term Corporate Bonds

1926-2012

Average Annually Compounded Real Return = 3.3 %

		2012			
		2008			
		2006			
		2005			
		2003			
		2002			
		2001			
		2000			
		1998			
		1997			
		1992			
		1990			
		1988			
		1983			
	2009	1975			
	2007	1972			
	2004	1971			
	1999	1964			
	1996	1963			
	1994	1962			
	1987	1961			
	1981	1960			
	1978	1957			
	1977	1955	2011		
	1973	1954	2010		
	1968	1952	1995		
	1967	1949	1993		
	1966	1948	1991		
	1965	1945	1989		
	1959	1944	1986		
	1958	1940	1984		
	1956	1938	1976		
1980	1951	1936	1970		
1979	1950	1935	1953		
1974	1943	1931	1939		
1969	1942	1929	1934	1985	
1947	1941	1928	1930	1933	
1946	1937	1926	1927	1932	1982

-10 0 10 20 30

Rates of Real Return (%)

<u>Appendix:</u> Articles on Momentum Investing

- George, Thomas and Hwang, Chuan-Yang. ***The 52-Week High and Momentum Investing.*** The Journal of Finance • vol. lix, no. 5 • October 2004 Link1

- Sapp, Travis and Tiwari, Ashish**. *Does Stock Return Momentum Explain the "Smart Money" Effect?*** Article first published online: 27 Nov 2005 Link2

- Wikipedia. ***Momentum Investing*** Link3

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