



**STRUCTURED
INVESTING**
In An Unstructured World

Structured Investing
STRATEGY REPORT

L O R I N G | W A R D

Believe in Value and Small

by **Joni Clark, CFA, CFP®**, Chief Investment Strategist, Loring Ward

From year-to-year, value and small company stocks have not always produced higher returns. But over longer time periods, the size and value premiums have been more prevalent.

Amid the extreme volatility in the markets in 2007, we also saw a strong divergence in returns between the style segments of value and growth stocks and size segments of small and large stocks. Investors increasingly turned to larger growth stocks as worries about the economy mounted. Over short periods of time, there is no question that value and small stocks have sometimes lagged their counterparts, but over the long haul, history indicates that value and small stock indexes remained the better performers.

Given the continuing credit crisis and growing concerns about recession, the recent shift to large growth makes sense. Value and small stocks are both generally more adversely affected by negative business cycle shocks than large growth stocks. Every asset class goes through cyclical patterns. What is going on in the world economically and politically affects potential investors and the markets. Both value and small stocks are considered to be more risky, and we experienced a relatively risk-averse market environment for much of 2007. But does this recent shift truly herald a new era in favor of large growth?

Some investors see the turn from value and small stocks as an inevitable cycle swing, since both have had such good returns in recent years. For the five-years ending March 31, 2007, large value stocks enjoyed a solid lead over large growth stocks with a premium of 39.4% cumulative excess return, 6.0% on an annualized basis (as measured by the difference between the Fama/French Large Value and Large Growth Indexes). Small stocks enjoyed a premium of 51.6% cumulative, and 7.1% annualized (as measured by the difference between the S&P 500 Index and the CRSP 6-10 Index).

As history suggests, the fact that value and small stocks did so well for so long does not necessarily mean that they are destined for poor performance. From 1928 to 2006, there were twelve periods when value beat growth in five consecutive years. In the following year for those twelve periods, on average, value outperformed growth by 3.89%.* Over the same time, there were seven periods when small stocks beat large stocks in five consecutive years. In the following year for those seven periods, on average, small stocks outperformed large stocks by 4.26%.*

From year-to-year, value and small company stocks have not always produced higher returns. But over longer time periods, the size and value premiums have been more prevalent.

Figure I shows the year-to-year value premium over growth and the small premium over large since 1927. There are years in which value and/or small underperform by a substantial amount, and even periods where the underperformance persists for multiple years. However, value stocks outperformed growth stocks in 64% of the annual time periods with an average



**STRUCTURED
INVESTING**
In An Unstructured World

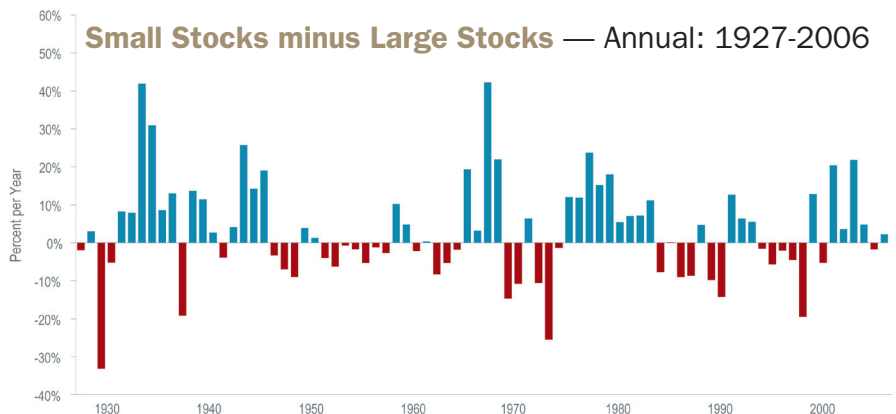
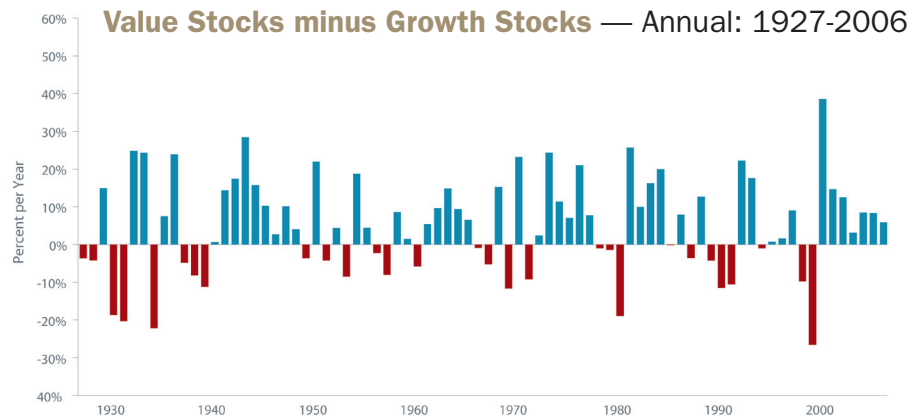
Believe in Value and Small

by **Joni Clark, CFA, CFP®**, Chief
Investment Strategist, Loring Ward

Structured Investing STRATEGY REPORT

annual premium of 12.56% for the up years and -8.18% for the down years. Small stocks outperformed large stocks in 55% of the annual time periods with an average annual premium of 11.97% for the up years and -7.62% for the down years.

Figure I



Sources: https://my.dimensional.com/presentations/powerpoint_slides/index.shtml (09/05/07); https://my.dimensional.com/presentations/powerpoint_slides/index.shtml (10/31/07)

The frequency of outperformance increases as the holding period is extended. Figure II shows how often value stocks and small stocks have outperformed large stocks since 1926. This performance is calculated according to rolling time periods — from one year to forty years. The bars in each column indicate the percentage of the time that the Fama/French US Large Value Index and the CRSP 6-10 Small Cap Index outperformed the S&P 500 Index for each rolling period. When the holding period is extended to 15-years, large value stocks outperformed 82% of the time. Similarly, small stocks outperformed 69% of the time when the holding period is extended to 15 years. This underscores the importance of maintaining a long-term perspective in a *Structured Investing* portfolio.



STRUCTURED INVESTING
In An Unstructured World

Believe in Value and Small

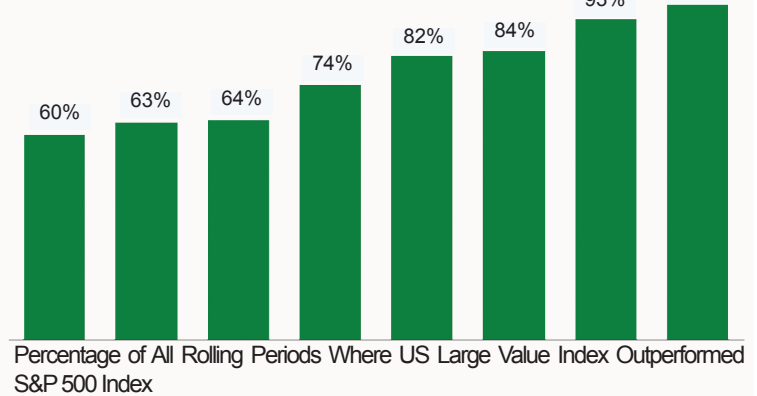
by **Joni Clark, CFA, CFP®**, Chief Investment Strategist, Loring Ward

Structured Investing
STRATEGY REPORT

Figure II

Value Stocks vs. Large Stocks — Monthly: July 1926-December 2006

Rolling Time Periods	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years	40 Years
Total Number of Periods	955	931	907	847	787	727	607	487
Number of Periods US Large Value Index Outperformed S&P 500 Index	570	589	585	623	649	608	566	475



US Large Value Index is Fama/French US Large Value Index (ex utilities), provided by Fama/French. The S&P data are provided by Standard & Poor's Index Services Group.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is not a guarantee of future results. Values change frequently and past performance may not be repeated. There is always the risk that an investor may lose money. Even a long-term investment approach cannot guarantee a profit. Economic, political, and issuer-specific events will cause the value of securities, and the portfolios that own them, to rise or fall. Because the value of your investment in a portfolio will fluctuate, there is a risk that you will lose money. Indices are referred to for comparative purposes only and do not represent similar asset classes in terms of components or risk exposure; thus, their returns may vary significantly. The S&P 500 Index measures the performance of large cap US stocks. US Large Value Index measures the performance of US stocks with lower price-to-book ratios.

Source: https://my.dimensional.com/presentations/powerpoint_slides/index.shtml (09/05/07)



STRUCTURED INVESTING
In An Unstructured World

Believe in Value and Small

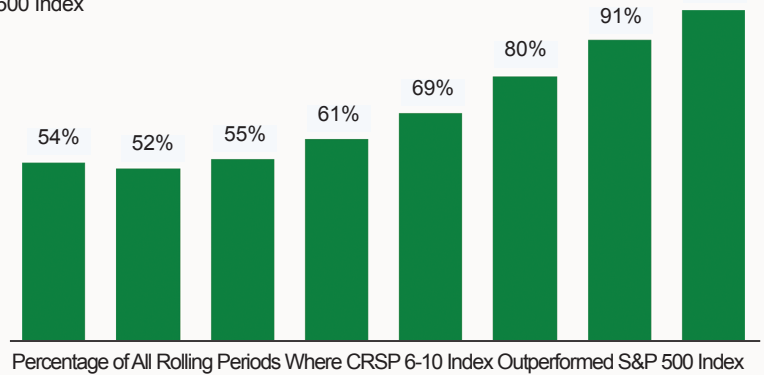
by **Joni Clark, CFA, CFP®**, Chief Investment Strategist, Loring Ward

Structured Investing
STRATEGY REPORT

Figure II — *continued*

Small Stocks vs. Large Stocks — Monthly: January 1926-December 2006

Rolling Time Periods	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years	40 Years
Total Number of Periods	961	937	913	853	793	733	613	493
Number of Periods CRSP 6-10 Index Outperformed S&P 500 Index	517	485	501	519	548	586	557	493




The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is not a guarantee of future results. Values change frequently and past performance may not be repeated. There is always the risk that an investor may lose money. Even a long-term investment approach cannot guarantee a profit. Economic, political, and issuer-specific events will cause the value of securities, and the portfolios that own them, to rise or fall. Because the value of your investment in a portfolio will fluctuate, there is a risk that you will lose money. Securities of small companies are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price. Indices are referred to for comparative purposes only and do not represent similar asset classes in terms of components or risk exposure; thus, their returns may vary significantly. The S&P 500 Index measures the performance of large cap US stocks. The CRSP 6-10 Index measures the performance of US small cap stocks, those in the five smallest deciles of the US market.

https://my.dimensionalfund.com/presentations/powerpoint_slides/index.shtml (10/31/07)

Although value and small stocks have historically provided higher returns for the additional risk assumed, investors should recognize that returns realized historically do not assure a similar pattern in the future, and the timing and magnitude of the value premium will always be uncertain. Value and small stocks will inevitably have poor returns in some years. The market itself will turn in poor performance from time to time, and this poor performance can persist for multiple years. Such is the nature of risk. Typically, market cycles can be very erratic, and predicting when these periods of poor returns will occur is notoriously difficult. History shows that it's worth maintaining investment in value stocks and small company stocks over the long run regardless of market swings. 

* Data Source: Dimensional Fund Advisors, "The Value Premium Following and Run", and "The Small Premium Following a Run" August 1, 2007 (pages 2 and 4)