

NO SURPRISE: MRB OUTPACES S&P AGAIN IN 2005

It was a good year for market return investors. When the books closed on 2005, the Market Return Benchmark finished the year with an 11.79% return. If you were following the mainstream media, however, as most investors do, you heard a different story. Consider these headlines and statements:

“Stock Markets Finish the Year Right Back Where They Started” (*Wall Street Journal*, 12/31/05)

“Drip, drip, drip: persistent oil pressures soaked up gains for stock investors this year” (*Dallas Morning News*, 12/31/05)

“Basically, the 2005 market was about as flat as you can get.” (Michael Sivy for *Money*, 1/3/06)

You can't blame them, however, for their reporting. In their view, that's exactly what happened. The problem is that they're using the wrong benchmark, typically the S&P 500 or the Dow Jones Industrial Average (which closed the year down a fraction of one percent). For arguments sake, let's look at just one, the S&P 500, which touts itself as “widely regarded as the best single gauge of the U.S. equities market” and as “an ideal proxy for the total market.”

There are a few problems with this. First, the market is not made up of US stocks alone. Second, the aforementioned fact sheet clearly states that the S&P 500 focuses on large-cap stocks. The market is not made up of large-cap stocks alone. Third, the S&P 500 Index Committee “monitors constituent liquidity to ensure efficient portfolio trading, while keeping turnover to a minimum.” In other words, companies that aren't performing well enough to keep up are dropped. (Reebok was a recent fatality.) The market is not made up of strong performers alone.

The market, in contrast, is a blend of a variety of asset classes. In addition to large-cap stocks (the S&P's core holding), it includes lesser-used asset classes such as small (even micro) cap, international and emerging markets. It's a blend much more accurately represented by the Market Return Benchmark.

The Market Return Benchmark consists of 6 indexes: CRSP 1-2 Index for US large cap stocks, the CRSP 6-10 Index for US small cap, the Wilshire REIT Index for real estate investment trusts, the MSCI EAFE for international large cap, MSCI EAFE Small Company for international small cap and the MSCI Emerging Markets Index for emerging markets.

Sounds a little fuller and more balanced, wouldn't you say? And not unreasonably so. Each of those asset classes plays a part in the market as a whole. When you're investing in the market, you get market return and the best snapshot of that is not the S&P 500. It's the Market Return Benchmark, which was anything but flat in 2005.

The Market Return Benchmark is NOT an investment product or fund that can be directly invested in. The Market Return Benchmark is designed to be used as an educational tool that will allow investors to measure the performance of their portfolio against a diversified 100% equity portfolio representing exposure to multiple asset classes. This information should not be construed as an offer to sell or buy any investment product or as specific advice to any individual.

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