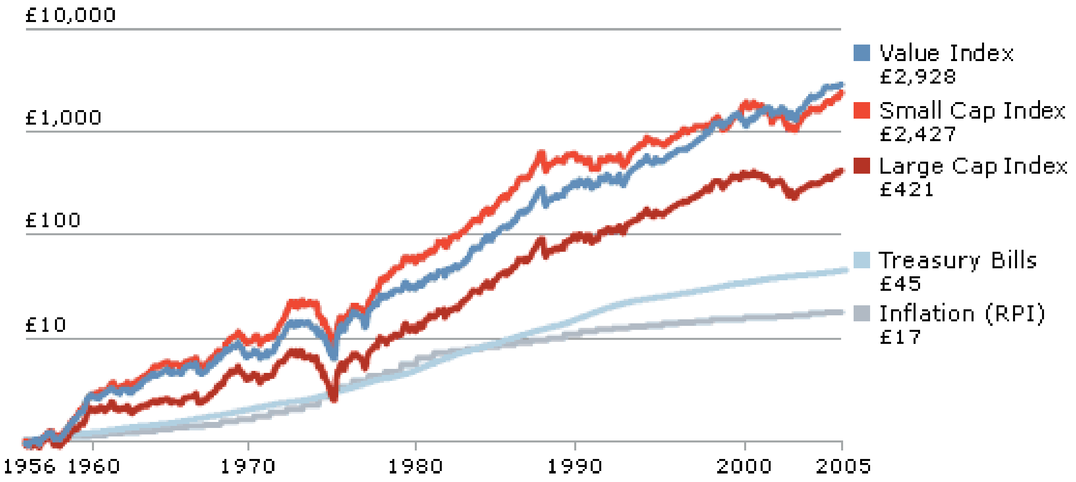
Markets Work

Markets throughout the world have a history of rewarding long-term investors for the capital they supply. Companies compete with each other for investment capital, and millions of investors compete with each other to find the most attractive returns. This competition tends to drive prices to fair value, making it difficult for investors to achieve greater returns without bearing greater risk.

A Picture of Growth



For the fifty years from 1955 to 2005, the compound annual growth rate of return was 17.31% for the Value Index, 16.87% for the Small Cap Index, 12.85% for the Large Cap Index, 7.91% for T-Bills, and 5.86% for Inflation (RPI). Value Index data provided by the London Business School and simulated by Dimensional from StyleResearch data. Small Cap Index: 1956-June 1981 provided by London Business School and ABN AMRO; July 1981-present simulated by Dimensional from StyleResearch securities data. Large Cap Index is the FTSE All-Share Index published with the permission of FTSE. T-Bills: 1955-1974, UK Three-Month T-Bills provided by the London Share Price Database; 1975-present, UK One-Month T-Bills provided by the Financial Times. Inflation is the UK Retail Price Index provided by the Office for National Statistics.

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

Traditional investment managers strive to beat the market by taking advantage of pricing "mistakes" and attempting to predict the future. Too often, this proves costly and futile. Predictions go awry and managers miss the strong returns that markets provide by holding the wrong stocks at the wrong time. Meanwhile, capital economies thrive - not because markets fail but because they succeed.

The futility of speculation is good news for the investor. It means that prices for public securities are generally fair and that persistent differences in average portfolio returns are largely explained by differences in average risk. It is certainly possible to outperform markets, but not in general without accepting increased risk.

Past performance should not be used as a guide to the future

Do not act on this information alone!

If you would like to discuss this in more detail, please contact:

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