



# Prospective Returns

2005 – 2009

# Foreword

Projecting asset class returns for any five year period is a hazardous exercise at best, so why do it?

At first glance, predictions over very short or very long horizons might make more sense. Over one year, for example, events appear to be easier to forecast, while over 30 years the impact of interim over- and under-valuations tend to cancel out. On the other hand, we have all witnessed how high volatility and momentum-driven strategies can greatly skew short-term returns. And the upheavals possible in society over three decades are sobering for any seer trying to peg financial and economic trends.

Put in that perspective, five years may be just about right — long enough for the fundamentals to assert themselves over the inevitable interim volatility, but short enough to instill a modicum of confidence that the trends can be discerned. For those who can plan for five years, there may be material investment opportunities to be captured from investors with much shorter time horizons.

Obviously, specific projections will inevitably be wide of the mark. However, getting the directional trend right may be helpful. We feel that the real value of this exercise is in its role as a framework for establishing long-term asset allocation. The foundations of portfolio structure lie not just in predicting returns, but in assessing the correlation between asset classes and the spreads between them.

We hope you will find *Prospective Returns* a useful tool in your investment planning.

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**Benchmarks as of June 1, 2005**

|                          |           |
|--------------------------|-----------|
| DJIA                     | 10,549    |
| S&P 500                  | 1,202     |
| Nasdaq                   | 2,087     |
| Russell 2000             | 623       |
| MSCI EAFE                | 1,463     |
| 3-Month Treasury Bill    | 2.98%     |
| 10-Year Treasury Note    | 3.89%     |
| 20-Year Treasury Bond    | 4.29%     |
| Japanese Yen/U.S. Dollar | 108       |
| U.S. Dollar/Euro         | 1.22      |
| Gold                     | \$415/oz. |
| Oil-Nymex Crude Future   | \$55/bbl. |

Source: Bloomberg, LLC

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