

# Markets

## ESTATE

Planning Professionals



### *Markets Shifting Tides*

## **S**tock markets ended July lower

for the second month in a row. Large company stocks held up best. The Dow hit 14,000 for the first time in mid-July before dropping -5% as the market declined broadly. The large-cap blue-chip index ended the month down -1.3%, though it is still ahead 7.3% year-to-date. The S&P 500 lost -3.1% in July, and stands 3.7% above where it started the year.

Small-cap stocks led the recent decline, with the Russell 2000 index losing 6.8% in July, its biggest percentage drop since September 2002. The small company index is now down -0.8% for the year. Small-caps enjoyed a long run outperforming large-caps for most of the past eight years, but now investors seem to favor larger cap companies with stronger balance sheets. The other major shift that may be occurring is away from value and toward growth companies. The past seven years were rough for most growth fund managers, as value funds outperformed by large margins. So far this year the growth portion of all major indices is far ahead of the value components. As a group, growth funds outperformed value again last month, somewhat unusual for a down period, but they've led for the past few months.

The Nasdaq Composite index shed 2.2% last month, and is now up 5.4% since the end of last year. Technology funds have been one of the strongest domestic categories so far this year, up over 10%. The worst hit sectors were real estate and financials. Overseas markets corrected as well, and developed country markets looked much like our own last month, but world equity markets outside of the U.S. continue to outpace the broad U.S. markets. The weak dollar continues to translate foreign shares into higher returns for U.S. investors. This combination results in international funds continuing to dominate the top ranks. European funds remain in the lead of developed

countries. Latin America and Pacific funds, excluding Japan, continued strong. Diversified emerging markets funds remain the hottest game in town. Although developing countries are volatile and remain vulnerable to shifting political and economic winds, their superior growth and advancement in infrastructure continue to make them attractive.

Volatile markets like those we experienced last month can cause concern. As usual, investors were best served by focusing on longer term trends and objectives. It may be comforting to realize that over the past 27 years investors were regularly challenged with difficult market environments, yet Upgrading averaged 18% versus 13% for the S&P 500.

To realize long-term benefits, investors must remain consistent despite nearterm market conditions. Upgrading moves us to the best performing funds in a disciplined way, avoiding emotional reactions to short-term market swings. The paradox of Upgrading is that it involves focusing on current performance and acting near term, but it is the consistent accumulation of these actions that determines our long-term success.

It works because it allows us to follow changing market leadership in a disciplined manner. Upgrading focuses our attention on the only thing that really matters—current performance—and moves us incrementally toward new market leadership no matter what the overall markets do. Remember, our performance comes from Upgrading but we manage risk based on our allocation between the various risk classes.

**Thank you for your business...**

P. Michael Valley II

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