

July 3, 1999

Dear clients,

Last quarter I discussed some of the merits and pitfalls of diversification and I left you with the question of what, if anything, we should think about the wide disparity in recent returns between small and large company U.S. stocks. First, a bit more on diversified investing and why, although often boring, it is a successful strategy that over time will not disappoint.

Let's acknowledge the fact that the best way to invest is to harness the magic powers of a crystal ball that will tell us exactly how the future will unfold. If we agree however that this approach is hardly realistic, then the next best approach is to broadly diversify and make sure that at any point in time, at least portions of our portfolios are participating in upward market surges. The key here is "portions".

This brings us to our discussion of the large co. vs. small co. disparity in returns. Long term returns for small co. U.S. stocks have

averaged approx. 12%/year while large co. have averaged a little over 11%. Over time, both categories of investments will be vital contributors to our succes, and this is why we will always be invested in each, but to varying degrees.

Next quarter, I will discuss the concept of regression to the mean and why I believe it is so very important. Until then, enjoy your summer, enjoy life, and rest assured that your diversified investment portfolio will perform admirably for you.