

October 1, 1999

Dear clients,

Greetings! This past month's heavy rainfall is a curious lead in to this quarter's topic – regression to the mean. As those of you on the east coast surely know, July was pretty close to the driest and hottest month on record with rainfall virtually nonexistent. September's heavy rains and flooding however sure evened things out. What do these "beyond our control" weather events have to do with our topic?

Plainly stated, regression to the mean, in investment terms, is the idea that unusually high returns that are above long term averages will generally trend lower in the future and unusually low returns will generally trend higher, like the rain in our weather example. As you know, over extended periods of time, various types of stocks and bonds will experience "droughts" or slumps that not even broad diversification can prevent. Conversely, in due time these same securities will even things out and "flood" investors with blockbuster returns also.

Because your portfolio is broadly diversified and being managed for the long term, we try to capitalize on this regression to the mean concept by slightly overweighting areas that have recently underperformed and slightly underweighting those that have outperformed. This is really nothing more than a continuation of our tried and true buy low - sell high strategy. More details and discussion next quarter. Until then, be well and enjoy what's left of the millennium. 😊