A Quick Look at Where We've Come so Far

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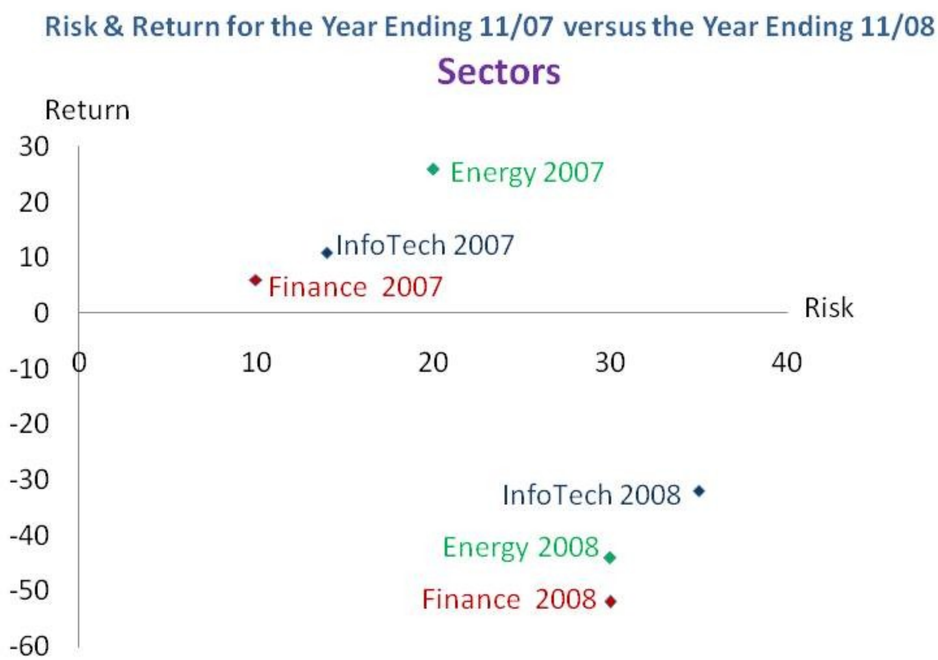
We all know that we've been slammed with a double whammy of plummeting prices and skyrocketing risk, and the following two graphs depict the horror. We contrast the year ending November 2007 to the past year. Returns are the 12-month total returns including dividends. Risk is measured as the standard deviation of monthly returns, and only hints at the magnitude of daily volatility that we've actually been experiencing.

As the next exhibit shows, last year growth outperformed value, with about as much monthly volatility, so it looked like the pendulum had once again swung toward growth. But it hasn't taken long to change that view. Growth stocks have almost tripled in volatility and have lost out to value, declining 47% versus a 36% loss in value stocks. Both losses have been substantial of course. No reward for risk here.

And it gets uglier for sectors, as shown in the next exhibit. Last year's winner, energy, isn't quite this year's loser. Monthly volatility of energy stocks has increased by only 50% while the volatility of both financial stocks and technology stocks has tripled. Nor is energy the worst performing sector; finance takes that prize.



So a lot has changed in a very short period of time. And now you see it.

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