



## DHWA Investment Update 2009

Vol. # 1

### Did They Get It Right?

Every year, a number of leading magazines and newspapers publish articles telling readers what stocks or managers or funds to invest in so that they can beat the market in the coming year. Weston Wellington, DFA's stock market historian, recently reviewed several of these "where to invest now" articles for 2008 and looks at both the predictions and the outcomes. Some of his findings follow:

For its annual "Where to Invest" issue, *SmartMoney* scoured the globe for appealing opportunities and identified a dozen companies "likely to increase profits in a world filled with trouble spots."

**Outcome:** From the recommendation date of November 2, 2007 through December 31, 2008, the average share price decline of the twelve named stocks was 52.4%, compared to a drop of 40.2% for the S&P 500 Index and 35.4% for the Dow Jones Industrial Average. Performance varied widely: Wells Fargo (WFC) shares declined 8.8% while Genworth Financial (GNW) plummeted 88.9%.

*Pearlman, Russell. "Where to Invest 2008." SmartMoney. January 2008.*

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A prominent money manager and self-described "contrarian" investor, wrote in a January 2008 *Forbes* column: "You have to choose carefully here, since many financial stocks will not come back for a long time, if ever...The safest plays are among the big banks."

**Outcome:** Prices for the seven financial stocks mentioned in the column, including Citigroup, Freddie Mac and Wachovia, declined an average of 74.0% in 2008.

*Dreman, David. "Seize the Day." Forbes, January 8, 2008.*  
*Wall Street Journal, New York Stock Exchange 2008 Trading Summary, January 2, 2009.*

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*Fortune* editors sought to identify the "true artists of today's mutual fund world" and selected six "standout managers" through a careful selection process. *Fortune* was sufficiently confident of their efforts that they believed "having even one of these names in your portfolio would reflect a savvy eye."

**Outcome:** Compared to a passively managed blend consisting of two-thirds DFA US Large Company Portfolio and one-third DFA Large Cap International Portfolio, total return for the six actively managed selections (four US, two international) was more than 200 basis points lower for the year ended December 31, 2008. Maybe next year.

*Morningstar. Morningstar.com, accessed January 6 2009.*  
*Rosenburg, Yuval. "Old Masters and New Classics." Fortune, December 24, 2007.*

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The cover of *Fortune's Investment Guide 2008* issue offered a teaser: "Five Must-Have Foreign Stocks." With thousands of stocks to choose from throughout the world, imagine how rewarding it could be to identify a handful of the best-positioned companies. After consulting with "top foreign fund managers and analysts," *Fortune* settled on the following picks:

- Bank of Ireland, IRE ("dirt cheap," 7% dividend yield).
- The iShares Brazil Index, EWZ ("only Egypt has done better over the past five years").
- Mobile Telesystems, MBT ("more cell phone subscribers than AT&T").
- Potash Corp. of Saskatchewan, POT ("earnings to soar more than 50%").
- GlaxoSmithKline, GSX ("strong cash flow, rich dividend yield").

**Outcome:** Bank of Ireland eliminated its dividend amid rising loan losses. Brazil finished 36th out of 47 world stock markets tracked by MSCI. Shares of Mobile Telesystems couldn't escape the collapse in Russian stock prices. Potash Corp. shares fall along with fertilizer prices. GlaxoSmithKline performed relatively well. The average price decline in 2008 for the five recommendations was -59.5%, compared to a loss of 45.2% for the MSCI All-Country World Index.

*Bank of Ireland. Bankofireland.com, accessed January 7, 2009.*

*MSCI. Mscibarra.com, accessed January 5, 2009.*

*Rosenberg, Yuval. "Harvesting the Top Foreign Stocks." Fortune, December 24, 2007.*

*Wall Street Journal, New York Stock Exchange 2008 Trading Summary, January 2, 2009.*

What should we make of all this? Trying to guess future market winners is close to impossible, as shown by the "experts" above. Whether they are picking stocks, mutual funds, or guessing where benchmark indexes will be at year end, even reputable sources lose most of the time. Understanding this, we believe the best course of action for long term investor is to own a diversified portfolio of low cost, tax efficient, asset class funds.

As always, we welcome your questions or thoughts on this subject - or any other. Please let us know if there is a particular topic you would like to see addressed in a future investment update.

Sincerely,

Dixon Hughes Wealth Advisors