



The Vita Viewpoint Important Information for Decision Makers

Stock Market Trends

- The performance of only a few stocks are driving the perception of the broader market.
 - In 1998, the S&P 500 advanced 28.58%.
 - However, 71% of the stocks in the S&P 500 underperformed the entire index by more than 15%.
 - Looking at it another way, if the 10 largest stocks in the S&P 500 (stocks like General Electric, Merck, Wal-Mart, and Coca-Cola) were removed entirely, the performance of the index would drop to *less than 15%*.

- P/E spreads are at record levels. Of the 1,500 largest stocks in today's market, the top 50 are trading 12 points higher than the other 1,450 stocks. This is the widest gap in valuations since 1966.
 - These statistics do not mean that all of these stocks should be avoided, but rather we should understand that the higher the valuation of a stock, the greater its potential for risk.

- Undeniably, 1998 and early 1999 have been great times for the largest stocks, a few internet stocks, and mutual funds that have invested in them. However, history tells us that this period for big-company growth stocks cannot continue indefinitely. A look back at the past 10 years shows an interesting story:
 - 1990 was the only other year that large cap growth funds were top performers.
 - The best-performing category in 1991, 1993, 1994, and 1995 was small-cap growth stocks.
 - Large-cap blend stocks, a combination of value and growth, won in 1997.
 - Mid-cap value funds led the way in 1996, mid-cap growth in 1989, and small cap value in 1992.

- Following the rising tide is a strategy that many investors adhere to. However such a strategy ignores important investment techniques to mitigate risk and ignores that certain investments may not be suitable for the individual's risk tolerance. Generally, diversification among broad asset classes, geographic regions and market sectors still seems to be the best long term way to mitigate market risk.

For questions or additional information, please contact Vita Benefits Group at (650) 968-8811.