December 31st, 2005

Closing the books on yet another calendar year always gives us reason to pause and reflect on recent history. Looking back, we find that we can conveniently divide the last eleven years symmetrically into two contrasting time periods for the US economy and the stock market.

Consider first the five and a half year period from January 1995 through June 2000. Economic historians will undoubtedly refer to this period as the Goldilocks Economy. This era was characterized by record low unemployment, low interest rates, and surging corporate productivity. In addition, the promise of a New Economy as a result of advances in computers, the internet, and telecommunications sent the stock prices of any company remotely connected to technology soaring. Led by this "Dotcom" boom, the S&P 500 experienced a remarkable Bull Market:

S&P 500 Annualized Return January 1995 – June 2000: 25.56%

Next consider the subsequent period from July 2000 through December 2005. In a cruel and ironic twist, this economic period will forever be remembered for its corporate scandals, record numbers of bankruptcies, and the first US recession in ten years. The devastating terrorist attacks of September 11th and subsequent wars in Afghanistan and Iraq were the final straws that pushed the stock market into the worst Bear Market since the Great Depression:

S&P 500 Annualized Return July 2000 – December 2005 -1.16%

It would have been almost impossible to live through the past eleven years without being made aware of the various domestic and global events that transpired. And it may have been tempting to adjust one's investment policy in light these unforeseen events. However, history proved once again that the only way to invest successfully through this period was to completely ignore the headlines, maintain the faith in the long-term resiliency of the markets, and commit to a disciplined investment approach. In fact, when we evaluate the entire eleven year period, we realize that these two *extraordinary* short-term periods combined to produce one very *ordinary* long-term period:

S&P 500 Annualized Return January 1995 – December 2005 11.40%
S&P 500 Annualized Return January 1926 – December 2005 10.36%

Imagine the Rip Van Winkle investor who confidently placed $1,000,000 an S&P 500 index fund in January of 1995 and settled in for an eleven year nap. The world he recently woke up to was quite different than the one he had fallen asleep to. He undoubtedly felt a bit foolish at the New Year's parties not knowing anything about the New Economy, Osama Bin Laden, or even Hurricane Katrina. But imagine how comforted he was to learn that, despite eleven years of domestic and global social, political, and economic chaos, his portfolio had grown to over $3,250,000. As always, his inactivity had proven to be quite prudent behavior.

Poor Rip's only regret lies in choosing to invest in an index fund rather than DEM's institutional quality, globally diversified, market-beating portfolios. As the attached 2005 performance graphs demonstrate, our portfolios once again fared significantly better than the major market indices.

Here's to a healthy and prosperous 2006 and beyond!