

22.40	11.91	23.74	4.74
20.41	10.84	21.79	4.25
18.41	9.77	19.84	3.74
16.38	8.71	17.88	3.47

# Cedarwinds Quarterly

Performance Updates and Market Commentary for Long-Term Investors

Vol. 4 Q1-08

## Asset Class % Returns\*

	3/31/08		Annualized Returns**	
	YTD	2007	3 Years	5 Years
<b>Bonds</b>				
Short-Term	0.85	5.19	4.08	2.94
Two-Year	0.68	5.27	3.87	2.84
Five-Year	1.77	4.95	3.39	3.12
Intermediate	1.03	5.22	3.60	3.33

## Domestic Stocks

Large Market	-9.43	5.44	8.55	12.72
Large Value	-7.68	-2.76	8.81	15.41
Small Cap	-9.59	-3.06	6.24	16.45
Small Value	-5.88	-10.75	5.35	18.51
Micro Cap	-10.27	-5.22	5.18	17.23
US Real Estate	2.29	-18.67	7.57	17.39

## International Stocks

Intl Large Value	-8.20	10.24	19.46	26.91
Intl Small	-5.14	5.66	17.18	27.32
Intl Small Value	-3.66	2.95	17.66	29.59
Emg Mkts	-8.78	36.02	31.64	36.55
Emg Mkts Value	-9.51	45.64	37.99	45.23
Emg Mkts Small	-13.80	38.02	33.57	39.63
Intl Real Estate***	-4.32	-14.17	N/A	N/A
Continental Small	-2.71	9.45	23.63	32.15
Japanese Small	-1.70	-8.53	3.61	17.71
Asia Pacific Small	-11.85	40.05	28.20	34.06
UK Small	-5.83	-8.43	14.51	23.84

\*\*\*2007 since inception date of 4/07

## Description of DFA Index Funds

Description of DFA Index Funds	TICKER	
Short-Term Bonds	1-Year Fixed Fund	DFHX
Two-Year Bonds	2-Year Global Fixed Fund	DFGX
Five-Year Bonds	5-Year Government Fund	DFGX
Intermediate Bonds	5-Year Global Fixed Fund	DFGBX
Large Market	Large Company Fund	DFLCX
Large Value	US Large Value Fund	DFLVX
Small Cap	Small Cap Fund	DFSTX
Small Value	US Small Value Fund	DFSVX
Micro Cap	US Micro Cap Fund	DFSCX
Real Estate	Real Estate Fund	DFREX
Intl Large Value	International Value Fund	DFVX
Intl Small	International Small Fund	DFISX
Intl Small Value	International Small Value Fund	DISVX
Emg Mkts	Emerging Markets Fund	DFEMX
Emg Mkts Value	Emerging Markets Value Fund	DFEVX
Emg Mkts Small	Emerging Markets Small Fund	DEMEX
Intl Real Estate	International Real Estate Fund	DFITX
Continental Small	Continental Small Company Fund	DFCSX
Japanese Small	Japanese Small Company Fund	DFJSX
Asia Pacific Small	Asia Pacific Small Company Fund	DFRSX
UK Small	United Kingdom Small Company Fund	DFUKX

\*Source: Dimensional Fund Advisors (www.dfaus.com)

The information contained herein is obtained from sources we believe are reliable, but we cannot guarantee its accuracy.

\*\* Calculated based on calendar year results.

**Past performance does not guarantee future returns.**

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## “WHAT DID THE MARKET DO TODAY?”

*“...the market today is no longer a physical exchange based on geography, corporate locations and nationalistic notions. It has quickly evolved to become a global process...”*



## Introduction

Not long ago, there was an elegantly simple answer to the question, “What did the market do today?” It was the daily change reflected in the Dow Jones Industrial Average (DJIA) which consists of 30 of the largest and most widely-held public companies in the United States. The average was created over a century ago as a general benchmark to gauge the performance of the industrial component of America's stock markets. During this time, the buying and selling of stock did not change much. Stock trading typically took place at a physical location, usually at the stock exchange, during a specific period of time, or trading hours. The market was open during trading hours and closed all other times.

Fast-forward to today. Many of the current 30 DJIA component stocks reflect technology or service oriented firms and have little to do with “industry” or with broader markets generally. In many respects, the Dow is a vestige of the past, an investment anachronism. However, perpetuated by “quick flash” media reporting, the daily change in the Dow average is usually the lead in to business coverage of overall stock market performance. The irony is that for all the changes that have occurred in the markets, we still use the old measuring tool – a slide rule in a digital world.

So we don't stand accused of media bashing, it should be noted that some financial reports also quote the NASDAQ and S&P 500 Index averages. NASDAQ is short for National Association of Securities Dealers Automated Quotation Service, a computerized trading system established for trading over-the-counter stocks which don't qualify for trading on the older, established exchanges. NASDAQ gained tremendous popularity for trading technology stocks in the late 1990s. The S&P 500 is essentially an expanded version of the Dow and provides a more complete view of the very largest companies headquartered in the US.

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### Revolutionary Change

A number of key developments have triggered an enormous need to change how we think about and report on the markets. These developments include: globalization of markets and cross-border investment; the growth of indexing and benchmarking and increased focus on sector and style indices; the globalization of investment approaches; and lastly, the globalization and consolidation of trading activity and exchanges.

Technology is the driving force that has accelerated these dynamic changes, quickly transforming Wall Street from a physical place to an electronic process. Today, it's hard to imagine that the opportunity to invest was ever limited by time and space. In this new paradigm, the market today is no longer a physical exchange based on geography, corporate locations and nationalistic notions. It has quickly evolved to become a global process, accessible via simple keystroke to any and all who choose to participate.

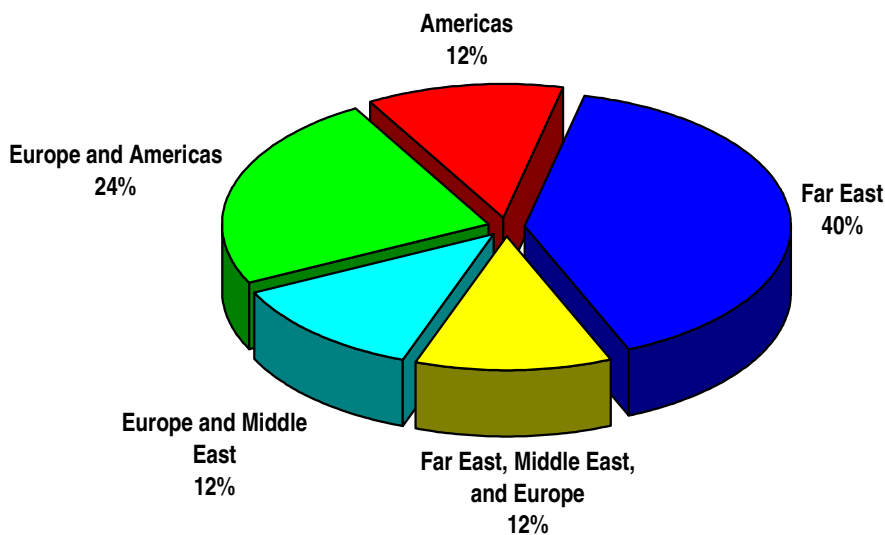
Importantly, advancing technology, the internet and economic reforms will continue to transform and reshape the marketplace into an increasingly automated, globally-integrated electronic trading platform, open for business 24/7/365. The implications are truly profound, having a direct and significant impact on all investors as well as how daily market performance is measured and reported.

### Revising the Question

Based on this dramatically shifting paradigm, we believe the Dow, the S&P and the NASDAQ represent seriously flawed barometers of general market performance. But in order to more accurately answer the market performance question ("What did it do?") we need to first address the root issue of how should we *define* the market ("What is it?") in view of the many changes transforming it. This is where things get tricky.

The chart below is instructive, summarizing the world time zones detailed on the last page of this newsletter.

**The 24 Hour Global Market Trading Day**



It is clear from this chart that the US markets, as part of the "Americas," have become less dominant in terms of global trading time and "shelf space" due to the expansion and formalization of the international and emerging markets. As part of a tectonic shift, the US has now been joined by more than 50 countries with organized trading activities. The developed markets alone cross at least eight time zones, and for investors diversifying further, emerging equity markets introduce an additional four to five time zones. The first Pacific market, New Zealand, opens a new trading day while the human exodus from Wall Street is beginning the daily onslaught of rush hour traffic (after their working day) and the US West Coasties have just finished their lunch (also on the previous day). Essentially, there is no point in the daily 24 hour global trading cycle when all equity markets are closed at the same time – the market never sleeps.

*Continued on Next Page*

**More Definitional Complexities**

As we have pointed out in previous newsletters, the US markets now represent less than 45% of global equity capitalization and the predicted trend is for continued reduction in our global influence and market presence. But aside from the US's diminishing stature, there are also other factors to consider in terms of developing a more representative global market definition. These factors complicate the metrics of performance measurement but are important considerations. For example, the combined effect of local currency exchange rates, trade settlement cycles, price discrepancies, and holidays can all have a layering impact on the purity of investment performance tracking, reporting and benchmarking.

**What to Do?**

In theory, we prefer to use a broad and deep framework to report on overall market performance. The two component pieces we feel are best suited for global performance reporting and longer-term benchmarking include the *Dow Jones Wilshire 5000 Composite Index* and Morgan Stanley's *MSCI All-Country World Index (ACWI) ex-US*. The Wilshire 5000 represents equities traded on the NYSE, AMEX and most of NASDAQ. This index includes well over 5000 individual securities, representing 99% of the total US market. The ACWI ex-US offers broad coverage of the world's developed and emerging markets outside of the US.

In practice, the common acceptance and usage of these two reporting formats is not a likely scenario other than in academia and the more quantitatively oriented, deeper recesses of the investment community. The reasons are due to the sheer inertia of media reporting, tradition and what is known as "home country" or regional bias. In this regard, investors generally relate better to geographical anchoring and familiar exchange reporting such as the Dow, the S&P 500, the British FTSE 100, the French CAC 40, the German DAX, the Japanese Nikkei 225, the Indian Sensex and the Hong Kong Hang Seng Index, versus a more holistic global market reporting methodology. This is despite the fact that in globally diversified portfolios, there will be wide fluctuations within individual asset classes that may obscure the performance smoothing benefit derived from broad diversification.

Our basic caveat to investors is to avoid getting caught in the trap of narrow, single market performance reporting (i.e., the volatility of daily changes in the Dow, Asian, Europe, emerging markets, etc.) and step back to reflect on the benefits of a disciplined, long term, "big picture" investment strategy.

**Answering the Question**

When asked the question, "What did the market do today?" there is always the option of responding, "Which market? The Dow? The Wilshire 5000 or the MSCI ACWI ex-US? And what do you mean by 'today'?" The response you get is always entertaining, if not enlightening. It is even more impressive if you can provide performance numbers for these indices. Who knows, you may be able to impart some of your investment wisdom and display the depth of your understanding about the benefits of global diversification and how the markets really work in a rapidly changing marketplace.

