



smartwomansecurities

Market Factors and Trends: “Why do markets move?” Or, “How do I get filthy rich in stocks?”

John Copeland

Managing Director
Lehman Brothers

Part I: Fundamental Concepts (review)

- Goal of Investing
- What is risk?
- What is return?
- What is “the market”?
- CAPM/Discounted Cash Flows
- P/E ratios

Reading: Peter Bernstein, [The Remarkable Story of Risk](#)



Fundamental Concepts (new)

1. Key Market Participants

- Investors
- Issuers
- Exchanges
- Analysts/I-banks
- The Fed
- SEC
- Other



Fundamental Concepts (new)

2. What is a bull market?

(And by the way, what is a bear market?)



Fundamental Concepts (new)

3. Leading vs. Lagging indicators

- Employment Situation
- Consumer Confidence
- Inflation (CPI/PPI)
- Home Sales
- Trade deficit
- Other



Fundamental Concepts (new)

4. The role of the Federal Reserve and interest rates

“the fed writes the market letter”

5. The role of foreign exchange and the dollar

6. Other market factors



Part II: Can you beat the market?

It's all about market efficiency



Theories of market efficiency

- EMH: weak, semi-strong, strong
- Random walk
- Analysis of market efficiencies
- SEC: focus on disclosure/transparency–
“sunlight is the best disinfectant”



Can you beat the market?

Answer: No

Response: Index investing

Thoughts:

- What does “no” mean?
- Asset class is important, risk is important, security selection is not
- Implications for investment strategy



Unpredictable Asset Class Pattern

Asset class performance may vary widely from year to year. An optimal asset allocation can help reduce your portfolio risk and help increase your potential returns

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	YTD 2006
MSCI EAFE	24.9%	40.4%	65.0%	Lehm. Bros. Agg. 9.0%	MSCI EMF 59.9%	Russell 2000 Value 29.1%	MSCI EAFE 78.8%	MSCI EAFE 8.1%	Russell 1000 Value 38.4%	NAREIT 35.8%	Russell 1000 Value 35.2%	Russell 1000 Growth 38.7%	MSCI EMF 66.4%	NAREIT 25.9%	NAREIT 15.5%	Lehm. Bros. Agg. 10.3%	MSCI EMF 56.3%	NAREIT 30.4%	MSCI EAFE 29.0%	MSCI EAFE 23.4%
Russell 1000 Growth	5.3%	29.5%	Russell 1000 Growth 35.9%	Russell 1000 Growth -0.3%	Russell 2000 Value 51.2%	Russell Midcap Value 21.7%	Russell EAFE 33.0%	Russell NAREIT 3.2%	Russell 1000 Value 37.8%	Russell 1000 Growth 23.1%	Russell Midcap Value 34.4%	Russell 1000 Growth 27.0%	Russell Midcap Growth 51.3%	Russell 2000 Value 22.8%	Russell 2000 Value 14.0%	NAREIT 5.2%	Russell 2000 Growth 48.5%	MSCI EMF 26.0%	MSCI EAFE 14.0%	MSCI EAFE 14.9%
LEH HY	5.0%	38.6%	Russell Midcap Growth 31.5%	Russell 1000 Growth -4.2%	LEH Midcap Growth 47.0%	LEH HY 15.7%	Russell 2000 Value 23.3%	Russell 1000 Growth 2.7%	Russell 1000 Growth 37.2%	Russell 1000 Value 22.4%	Russell 1000 Growth 32.9%	Russell EAFE 20.3%	Russell 2000 Value 43.1%	Russell Midcap Value 19.2%	Lehm. Bros. Agg. 8.4%	LEH HY -1.4%	Russell 2000 Value 46.0%	Russell Midcap Value 23.7%	Russell Midcap Value 12.7%	Russell 2000 Value 13.3%
Russell 1000 Value	2.9%	24.6%	Russell 1000 Value 30.4%	Russell Midcap Value -5.1%	LEH HY 46.2%	LEH NAREIT 14.6%	Russell NAREIT 20.1%	Russell 1000 Value 0.4%	Russell Midcap Value 34.9%	Russell 1000 Value 21.6%	Russell 2000 Value 31.8%	Russell Midcap Value 17.9%	Russell Midcap Value 33.2%	MSCI EAFE 11.6%	LEH HY 5.3%	MSCI EMF -6.0%	Russell Midcap Value 42.7%	Russell 2000 Value 22.3%	Russell Midcap Value 12.1%	Russell 1000 Value 13.2%
Russell Midcap Growth	2.8%	23.2%	Russell 1000 Value 25.2%	Russell 1000 Value -8.1%	Russell 2000 Value 41.7%	Russell 1000 Value 13.8%	Russell 1000 Value 18.1%	LEH HY -1.0%	Russell Midcap Value 34.0%	Russell 2000 Value 21.4%	Russell 1000 Value 30.5%	Russell Midcap Value 15.6%	Russell Midcap Value 27.3%	MSCI EAFE 7.0%	Russell Midcap Value 2.3%	MSCI EMF -9.6%	Russell Midcap Value 39.2%	MSCI EAFE 20.7%	MSCI EAFE 8.3%	Russell Midcap Value 10.8%
Lehm. Bros. Agg.	2.8%	20.4%	Russell Midcap Value 22.7%	LEH HY -9.6%	Russell 1000 Value 41.2%	MSCI EMF 11.4%	LEH HY 7.1%	Russell 2000 Value -1.6%	Russell Midcap Value 31.0%	Russell Midcap Value 20.3%	Russell Midcap Value 22.5%	Russell Midcap Value 17.7%	Russell Midcap Value 20.9%	LEH HY -5.9%	Russell 1000 Value -2.4%	MSCI EMF -11.4%	Russell Midcap Value 38.1%	Russell 1000 Value 16.5%	Russell 1000 Value 7.1%	Russell 1000 Value 10.1%
Russell 1000 Value	0.5%	17.3%	Russell 2000 Growth 20.2%	Russell EMF -10.6%	Russell Midcap Value 37.9%	Russell 1000 Value 8.9%	Russell Midcap Value 15.6%	Russell 1000 Value -2.0%	Russell 2000 Value 25.8%	Russell Midcap Value 17.5%	Russell Midcap Value 18.9%	Russell Midcap Value 5.1%	Russell Midcap Value 7.4%	Russell 1000 Value -7.8%	Russell 1000 Value -5.6%	MSCI EMF -15.5%	Russell 1000 Value 38.5%	Russell Midcap Value 15.5%	Russell 1000 Value 6.3%	Russell 1000 Value 8.0%
Russell Midcap Value	-2.2%	13.5%	NAREIT 14.6%	Lehm. Bros. -15.4%	NAREIT 35.7%	Russell Midcap Growth 8.7%	Russell 2000 Growth 13.4%	Russell Midcap Value -2.1%	LEH HY 19.2%	LEH HY 11.4%	Russell 2000 Growth 13.0%	LEH HY 1.9%	LEH HY 2.4%	Russell Midcap Growth -11.1%	LEH HY -9.2%	MSCI EAFE -15.7%	Russell 1000 Value 30.0%	Russell 2000 Growth 14.3%	Russell 1000 Growth 5.3%	Russell 1000 Growth 7.4%
NAREIT	-3.6%	12.9%	Russell Midcap Value 12.4%	Russell Midcap Value -16.1%	Russell 2000 Growth 33.0%	Russell 2000 Growth 7.8%	Russell Midcap Growth 11.2%	Russell Midcap Growth -2.2%	Lehm. Bros. Agg. 11.5%	Russell 2000 Growth 11.3%	LEH HY 12.8%	LEH HY 1.2%	Russell Midcap Value -0.1%	MSCI EAFE -14.0%	Russell 1000 Value -12.4%	Russell Midcap Value -2.7%	Russell 1000 Value 29.9%	Russell 1000 Value 11.4%	Russell 2000 Value 4.7%	Russell 2000 Growth 4.2%
Russell 2000 Value	-7.1%	12.5%	LEH HY 10.8%	MSCI EAFE -17.4%	Russell 2000 Value 24.6%	Lehm. Bros. Agg. 7.4%	Russell 1000 Agg. 10.2%	Russell 2000 Growth -2.4%	MSCI EAFE 18.3%	MSCI EMF 6.4%	MSCI EMF 9.7%	MSCI EAFE -6.5%	Lehm. Bros. Agg. -0.8%	Russell 2000 Value -0.8%	Russell Midcap Growth -22.4%	Russell Midcap Growth -20.2%	Russell 1000 Value 29.7%	Russell Midcap Value 11.1%	Russell 2000 Growth 4.2%	Russell Midcap Growth 3.5%
Russell 2000 Growth	-10.5%	11.3%	NAREIT 8.8%	Russell 2000 Value -21.8%	Lehm. Bros. Agg. 16.0%	Russell 1000 Growth 5.0%	Lehm. Bros. Agg. 9.8%	Lehm. Bros. Agg. -2.9%	MSCI EAFE 11.6%	MSCI EMF 6.0%	MSCI EAFE 2.1%	NAREIT -18.8%	Russell 2000 Value -1.5%	Russell 2000 Growth -22.4%	Russell 1000 Value -20.4%	Russell 1000 Value -27.9%	Russell 1000 Value 29.0%	LEH HY 6.3%	Russell 1000 Value 2.7%	Lehm. Bros. Agg. 3.1%
Lehm. Bros. Agg.	7.9%	0.8%	NAREIT 0.8%	MSCI EAFE -23.2%	MSCI EAFE 12.5%	MSCI EAFE -11.9%	Russell 1000 Growth 2.9%	MSCI EMF -7.3%	MSCI EMF -5.2%	Lehm. Bros. Agg. 3.6%	MSCI EMF -11.6%	MSCI EMF -25.3%	NAREIT -6.5%	MSCI EMF -30.6%	MSCI EMF -21.2%	Russell 2000 Growth -30.3%	Lehm. Bros. Agg. 4.1%	Lehm. Bros. Agg. 4.3%	Lehm. Bros. Agg. 2.4%	Russell 1000 Growth 3.0%

Source: Lehman Brothers and Bloomberg



Can you beat the market?

Answer: Yes

Response: Do your homework

- Technical analysis
- Fundamental analysis
- Other

Thoughts:

- What does “yes” mean?
- There are market inefficiencies
- Implications for investment strategy



Basic tenets of technical analysis

- Historical charts / data
- Quantitative analysis
- Hybrid

Reading: Frank McGee, Technical Analysis



Basic tenets of fundamental analysis

- Micro
- Macro

Reading: Graham & Dodd, Intelligent Investor



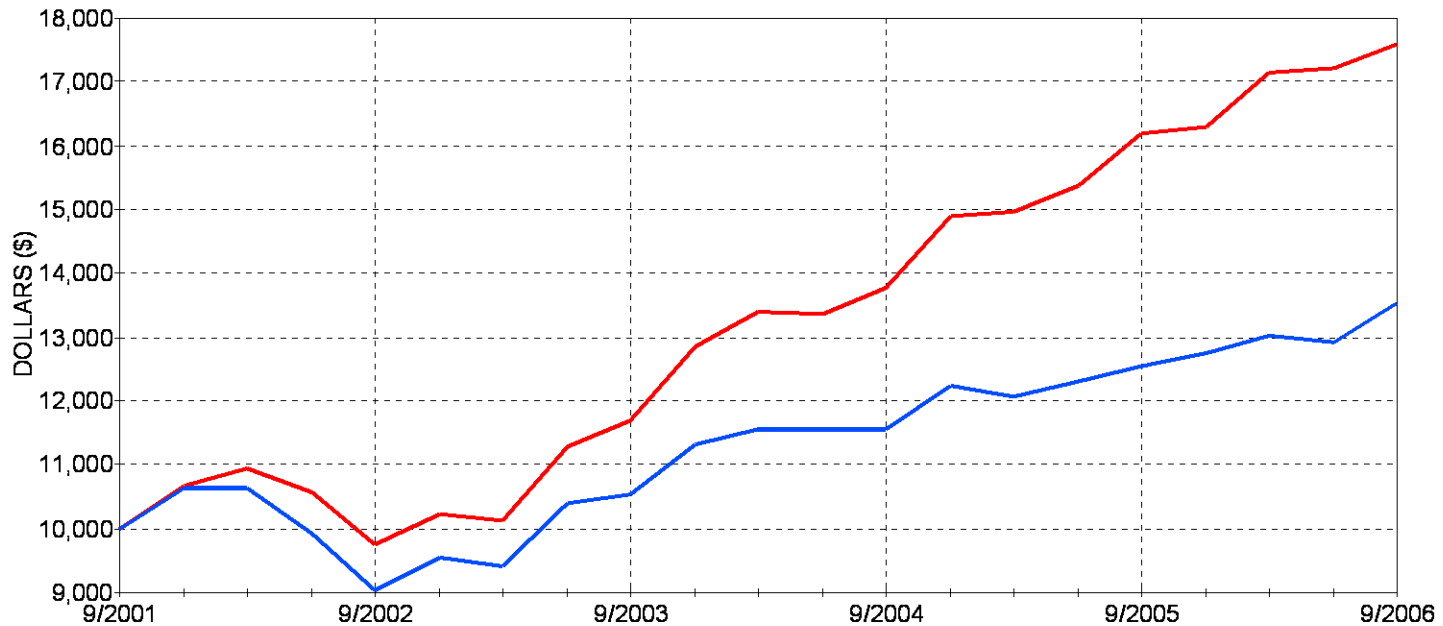
Types of Investing

- Growth /value /GARP /other
- Market cap segmentation
- US vs. US/international/global
- Volatility/risk
- Tax efficient
- Other



Manager Performance and Risk Analytics

GROWTH OF AN INVESTMENT
SEPTEMBER 30, 2001 TO SEPTEMBER 30, 2006



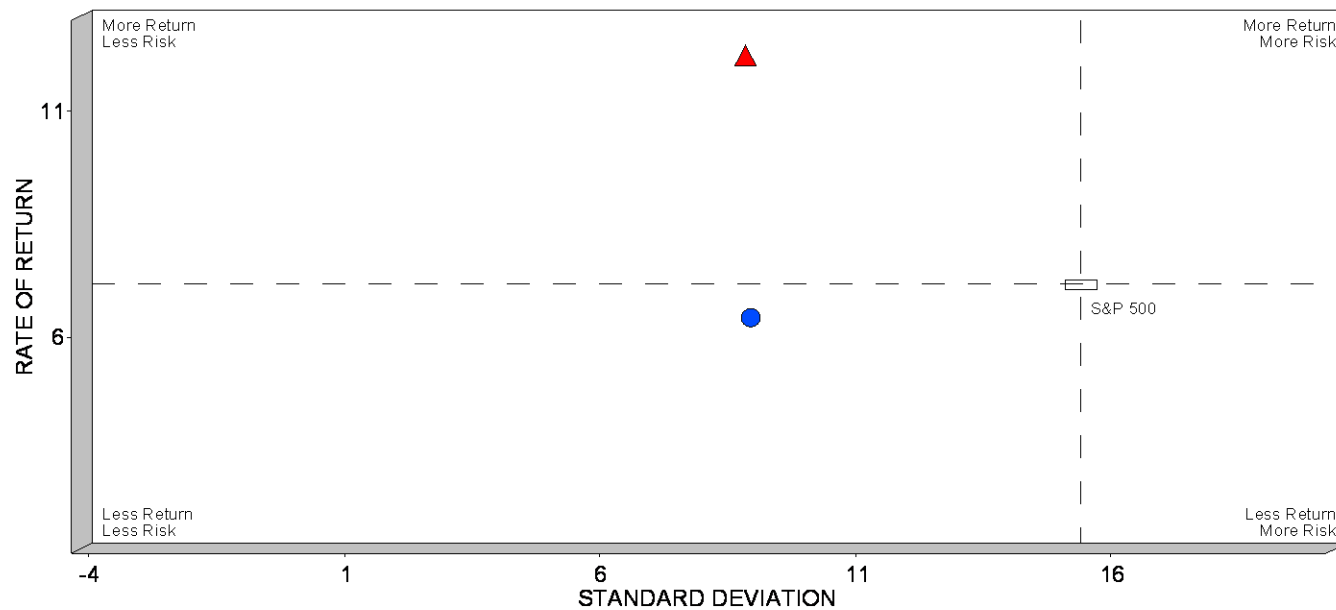
	6/2006-9/2006	9/2005-9/2006	9/2004-9/2006	9/2003-9/2006	9/2001-9/2006
Linnco_Proposed	2.18	8.72	13.10	14.65	11.98
2%TBill/38%Agg/60%SP	4.87	7.93	8.19	8.68	6.26



Manager Performance and Risk Analytics

TOTAL RISK REWARD

SEPTEMBER 30, 2001 TO SEPTEMBER 30, 2006

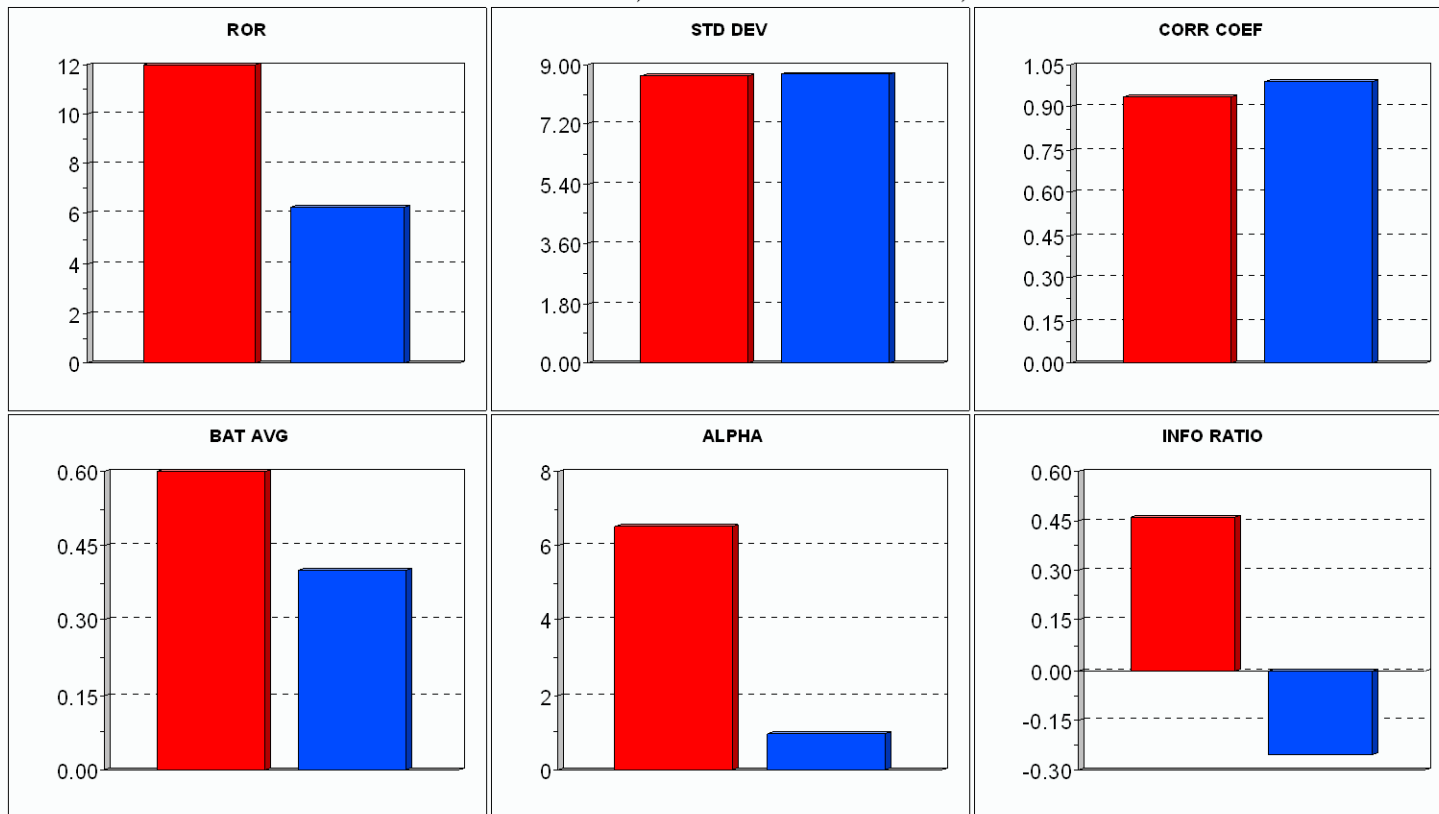


	ROR	STD DEV	ALPHA	BETA	R-SQUARED	BEST 4 QTRS	WORST 4 QTRS
▲ Proposed	11.98	8.83	6.53	0.53	0.87	32.48	-7.39
● 2%TBill/38%Agg/60%SP	6.26	8.73	0.98	0.57	0.98	22.60	-11.49



Manager Performance and Risk Analytics

MULTIPLE STATISTIC BAR
SEPTEMBER 30, 2001 TO SEPTEMBER 30, 2006



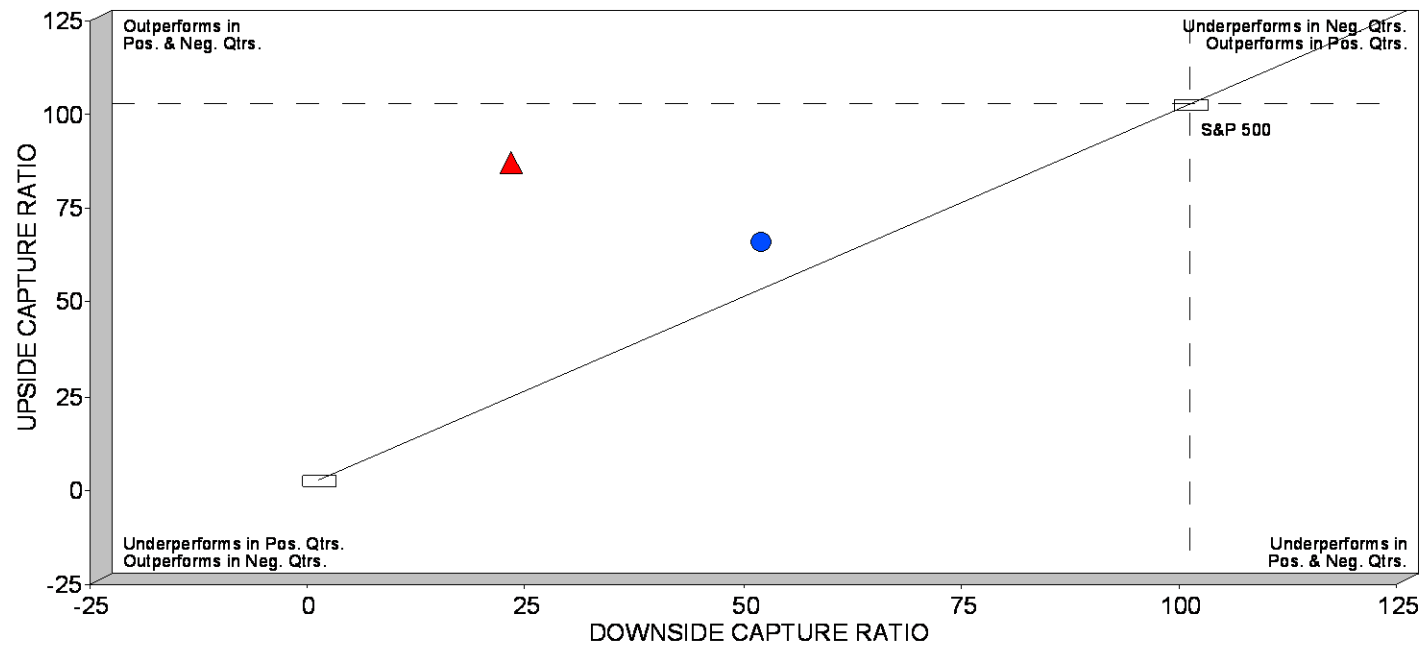
	ROR	STD DEV	CORR COEF	BAT AVG	ALPHA	INFO RATIO
Proposed	11.98	8.63	0.93	0.60	6.53	0.46
2%TBIII/38%Agg/60%SP	6.26	8.73	0.99	0.40	0.98	-0.25



Manager Performance and Risk Analytics

MARKET CAPTURE

SEPTEMBER 30, 2001 TO SEPTEMBER 30, 2006



	UPSIDE CAP ROR	UPSIDE CAP RATIO	DWN CAP ROR	DWN CAP RATIO	R-SQUARED
▲ <small>UBI</small> Proposed	20.36	84.26	-5.39	22.02	0.87
● 2%TBill/38%Agg/60%SP	15.41	63.75	-12.37	50.58	0.98



Part III: What drives markets up and down?

Question: Why is the market up today?

Answer: “More buyers than sellers”



Basic rules of all markets, anywhere/anytime:

- Supply/Demand
- Investor anticipation: prisoner's dilemma
- Liquidity
- Reality



Earlier topics revisited

- Bull and Bear markets
- Economic indicators revisited
- The Fed revisited
- Consumer sentiment revisited



The Most Influential U.S. Economic Indicators

Indicator	Why it's important	Market Sensitivity	Frequency
Employment Situation	The most eagerly awaited news on the economy. Are jobs being created? Forecasts the well-being of American workers and can help forecast future economic activity	High	Monthly
Retail Sales	First report of the month on consumer spending. Consumer spending makes up 70% of all economic activity and retail sales account for about 1/3 of this. Provides insight into mood and behavior of shoppers	High	Monthly
Consumer Confidence Index	Examines how consumers feel about jobs, the economy, and spending. Consumer expenditures account for well over half of the economy's total demand.	Medium (high at turning points in economy)	Monthly
Gross Domestic Product	The foremost report on the health of the economy, GDP measures how fast or slow the economy is growing. Most important statistic to come out in any given quarter.	Medium to High	Quarterly



Market and stock specific examples



S&P 500 – 10 Year Performance

GRAB

Index COMP

Hit 1<GO> for Options, Hit <Page> for table.

COMPARATIVE RETURNS

Page 1/10

Securities	Range	Period	Monthly	120 Mo. Period
	10/31/96 - 10/31/06			
	Crcy	Prc	Appr	Total Ret
				Difference
				Annual Eq
1 SPX Index	USD	95.38 %		128.95 %
2				8.63 %
3				

(* = No dividends or coupons)



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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S&P 500 – Price vs. EPS

GRAB

Index GE

VALUATION GRAPH FOR SPX

S&P 500 INDEX

Range 10/31/96 To 10/31/06

Graph Type 8 EPS

Period M Monthly

Hi/Lo Graph N Price graph Y

Cur/est level N

Est EPS * 87.77

EPS * 79.40

EPS chg * 10.54

High 10/31/06 78.94

Low 3/29/02 18.71

Average 45.03

High Price 1517.68 8/31/00

Low Price 705.27 10/31/96

* Calculated by Bloomberg



Australia 61 2 9777 8600

Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

Hong Kong 852 2977 6000

Japan 81 3 3201 8900

Singapore 65 6212 1000

U.S. 1 212 318 2000

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S&P 500 – Price vs. P/E

GRAB

Index GE

VALUATION GRAPH FOR SPX

S&P 500 INDEX

Range **10/31/96** To **10/31/06**
 Graph Type **1** P/E
 Period **M** Monthly
 Hi/Lo Graph **Y** Price graph **Y**
 Cur/est level **N**

Est P/E	*	15.77	Est EPS	*	87.77
P/E	*	17.44	EPS	*	79.40
P/E chg	*	-9.53	EPS chg	*	10.54
High	3/29/02	62.74	High Price	1517.68	8/31/00
Low	7/31/06	16.35	Low Price	705.27	10/31/96
Average		27.47	* Calculated by Bloomberg		



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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Merck - 3 Year Performance

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Equity COMP

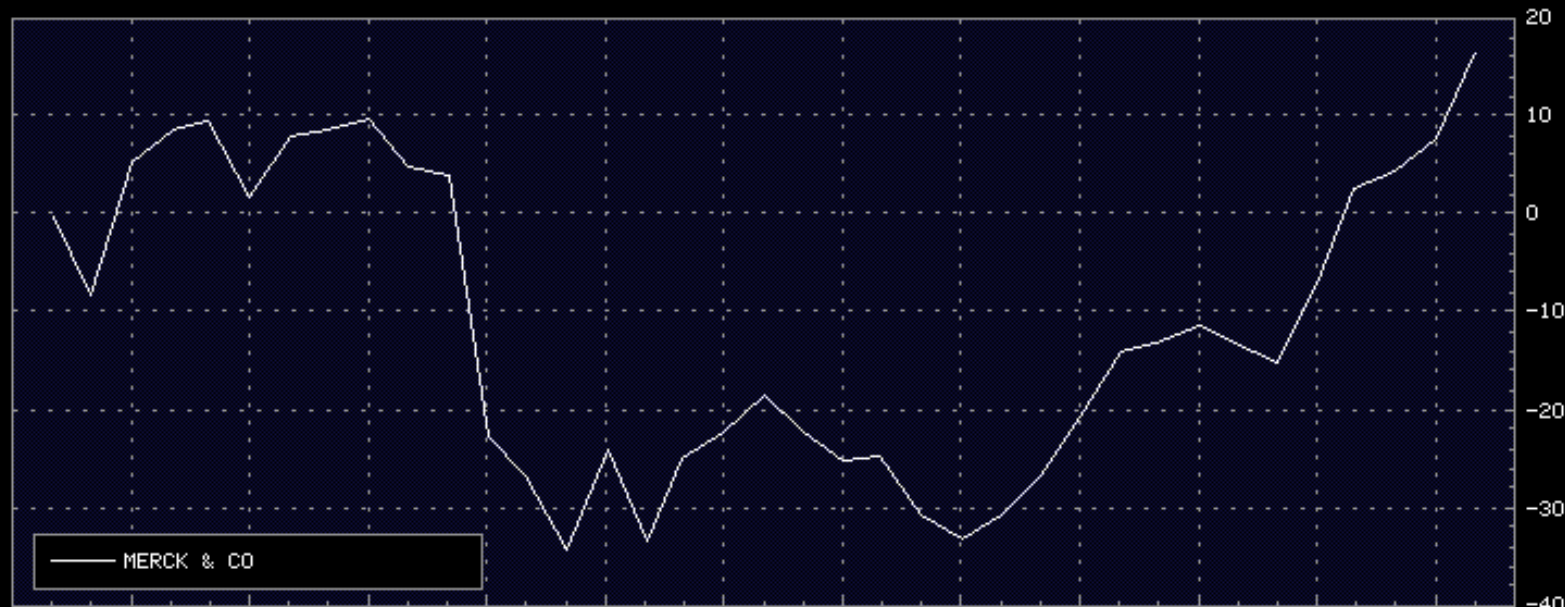
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COMPARATIVE RETURNS

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Securities	Range	Period	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 MRK US Equity	10/31/03 - 10/31/06	Monthly	USD	2.64 %	16.76 %		5.29 %
2							
3							

(* = No dividends or coupons)



DEC03 MAR04 JUN04 SEP04 DEC04 MAR05 JUN05 SEP05 DEC05 MAR06 JUN06 SEP06
 Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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Starbucks – 1 Year Performance

GRAB

Equity COMP

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COMPARATIVE RETURNS

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Securities	Range	Crncy	Prc Appr	Period	Total Ret	Difference	Annual Eq
1 SBUX US Equity	10/31/05 - 10/31/06	USD	33.49 %	Daily	33.49 %		33.49 %
2							
3							

(* = No dividends or coupons)



18NOV05 9DEC 30 20JAN06 10FEB 3MAR 24 14APR 5MAY 26 16JUN 7JUL 28 18AUG 8SEP 29 20OCT

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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Four Seasons – 3 Month Performance

GRAB

Equity COMP

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COMPARATIVE RETURNS

Page 1/6

Securities	Range	Crncy	Prc Appr	Total Ret	Difference	92 Day Period	Annual Eq
1 FS US Equity	7/31/06 - 10/31/06	USD	16.60 %	16.60 %			83.90 %
2				*			
3							

(* = No dividends or coupons)



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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UPS - 1 Year Performance

GRAB

Equity COMP

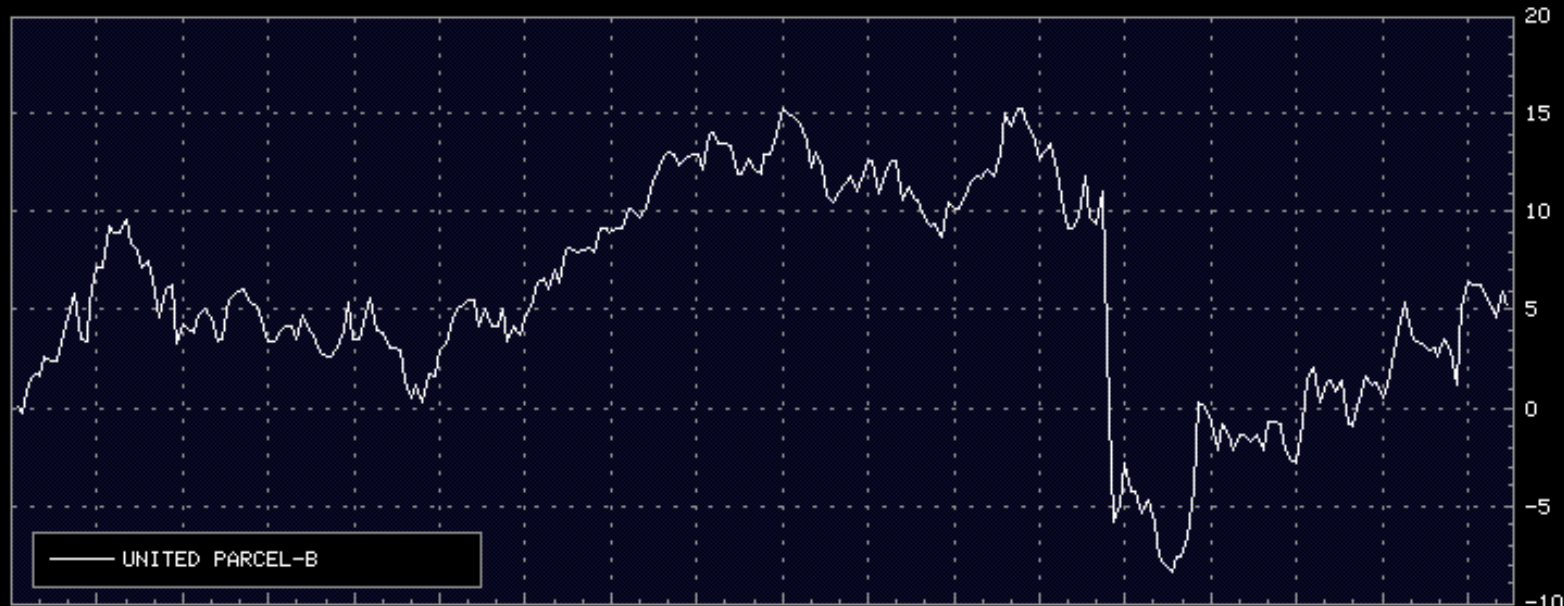
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COMPARATIVE RETURNS

Page 1/19

Securities	Range	Period	Daily	365 Day	Period
	10/31/05 - 10/31/06	D			
			Total Ret	Difference	Annual Eq
1 UPS US Equity			5.29 %		5.29 %
2					
3					

(* = No dividends or coupons)



18NOV05 9DEC 30 20JAN06 10FEB 3MAR 24 14APR 5MAY 26 16JUN 7JUL 28 18AUG 8SEP 29 20OCT
 Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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Final Thoughts

The four C's – most powerful concepts in investing

1. Compounding
2. Concentration
3. Counterintuitive
4. -----

Other books:

- Burrough & Helyer, Barbarians at the Gate
- Michael Lewis, Liar's Poker
- James Stewart, Den of Thieves



The Rule of 72: The Power of Compounding

Rate of Return	Investment Doubles Every...
0.75%	96 years
2.00%	36 years
4.00%	18 years
6.00%	12 years
8.00%	9 years
10.00%	7 years
12.00%	6 years



Q&A

