

SURZ/SENIOR CONSULTANT STYLE ANALYSIS

A Tale of a Tangled Style Web

Lord knows there are too many available style indexes to choose from, but gratefully it usually doesn't matter much which company's indexes you use because they're usually pretty similar. Not so for the second quarter of this year. You will see significant differences in Growth and Value index returns among the providers of such style indexes in this quarter, and the reason is primarily rebalancing, or lack thereof. For example, the Russell style indexes received their annual re-balancing on June 30, so some firms that are now called Growth were not so classified at the beginning of the second quarter, and the same is true for value. By contrast, Surz style indexes are rebalanced at the beginning of each quarter.

For the second quarter of this year the Surz Growth index lost 11.23%, while the Russell Growth is down only 3.04%. In addition,

the Russell growth index wins out over the Russell Value index, which is down 4.24%. By contrast, the Surz Value index is essentially flat for the quarter, far outdistancing Growth. Details for the quarter ending June 30, 2000 and year-to-date are shown below. The first quarter Russell results were reasonably similar to the Surz, but these second quarter differences spill into the six-month results.

So what's going on? The answer lies mostly in the second quarter correction in technology stocks. Not all technology stocks are Growth, but there was a significant run-up in the prices of many technology stocks from September 1999 through March 2000. Overall, technology returned 55% during this period, while the total market grew 25%. This caused more technology stocks to be reclassified as Growth and increased their

weighting in Growth index calculations. Of course, there were no reclassifications for some indexes, like Russell's. The Surz large Growth index was weighted 58% to technology on September 30, 1999 and 71% on March 31, 2000. As we all know now, technology was not the place to be in the second quarter, losing 13% overall. Small technology firms were particularly hard hit, with a 26% loss in the quarter.

Some managers manage to the Russell indexes, so they've had a serious question to address as the annual rebalancing approached: Wait or don't wait. This is one of those quarters where this particular coin flip mattered a lot. Now we'll all be trying to figure out how skill may have entered into the decision. ■

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