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**FUN FACTS TO KNOW AND TELL**

**January 2008**

The stock market ended 2007 with the most modest annual calendar returns we have seen in this decade. Times like this make it critically important to keep short-term investment returns in perspective relative to long-term averages and realistic future expectations. To refresh your memory, calendar year 1999 was a blockbuster year with the S&P 500 Index of US large company stocks up over 21%. This capped off an unprecedented five-year period of 20% plus annual gains for the S&P 500. Next followed three calendar years of losses for the S&P 500: -9%, -12% and -22% in calendar years 2000, 2001 and 2002 (downright ugly!) Fortunes turned in calendar year 2003 with a nearly 30% recovery not only for the S&P 500 but most other asset classes as well. Calendar year returns were above average for 2003, 2004, 2005 and 2006 or a nice four-year stretch. Given the past 4 years of strong returns we shouldn't be disappointed with a more modest 2007.

Here are general stock market returns as of December 31, 2007:

	2007	Last 3 Years	Last 5 Years	Last 10 Years
S&P 500	+ 5.49%	+ 8.62%	+12.82%	+ 5.91%
US Large Co Stocks				
S&P Midcap 400	+ 7.98%	+10.27%	+16.19%	+11.19%
S&P Small Cap 600	-0.30%	+ 7.32%	+16.03%	+ 9.02%
S&P REIT Composite	-16.80%	+ 7.85%	+17.60%	+ 6.34%
MSCI EAFE Int'l Stocks	+ 8.62%	+14.14%	+ 18.79%	+ 6.61%

Diversification ala Berno Financial Management, Inc. style paid-off handsomely since calendar year 2000 with 7 consecutive calendar years wherein all 7 asset classes that we use outside of the S&P 500 (US mid-cap, small-cap, US and international Value style, REIT, commodity, international and international emerging markets) out-performing the US S&P 500 Index. Remember that diversification typically provides that some things will be up while others are down, but every thing we use outside of the S&P 500 out-performed from 2000 to 2006. In 2007, as you can see above, we had divergent returns in US small caps and REIT's. Also, not specifically shown due to space constraints, the value style under-performed the growth style across the board for the first time since 1999. Putting it all in perspective, 2007 was a pretty "normal" year or as "normal" as investment markets go. Our long-term investment strategy is rooted in academic principles and we expect it to continue to serve us well in 2008 and beyond!

Happy New Year 2008! As always, e-mail or call with any questions or comments!

**A monthly publication for our firm's clients, prospective clients and friends.**

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