Press Release

London, 5 February 2003

New research report finds stock market losses total US$13 trillion since 2000

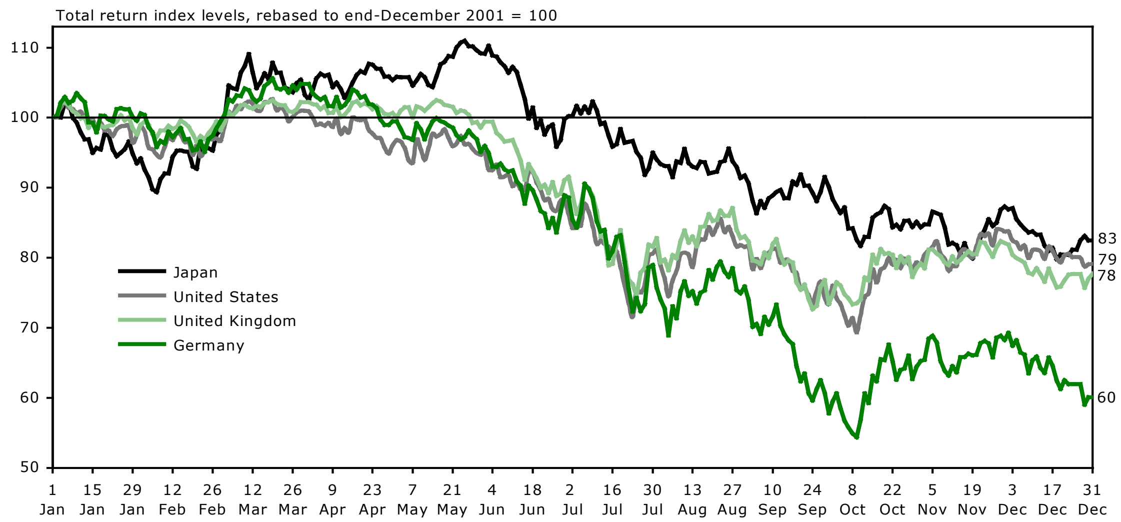
Falls in world-wide equity markets during 2000-2002 saw markets decline by US$13 trillion or US$2,000 for every man, woman, and child on the planet according to this year's edition of ABN AMRO's Global Investment Returns Yearbook, a study of long-term investment returns by Elroy Dimson, Paul Marsh and Mike Staunton from London Business School.

The study, the most comprehensive and authoritative analysis of its kind globally, examines total returns since 1900 for stocks, bonds, cash and foreign exchange in the UK and 15 other major markets, covering all the main North American, Asian, European and African markets that have existed over the period.

Equities have fallen 50% from their December 1999 high and created the longest bear market since the Second World War. However, in terms of losses, it is only the third worst bear market on record after the 1929-1932 Wall Street Crash (where US investors lost 80% in real terms) and the 1973-1974 bear market (where UK equities markets fell 71% in real terms).

The chart below compares the UK's performance with that of the US, Japan, and Germany across 2002.

Chart 1 : Equity performance in selected world markets during 2002



Source: Dimson, Marsh and Staunton (ABN AMRO/LBS), Wilshire Associates, and Thomson Financial Datastream

This chart shows that the return on US equities was –21%, and that while the UK market tracked Wall Street closely, it underperformed slightly in 2002. Germany was the worst performer among the world's major markets, reflecting its weak economy, and the exposure of the German market to banking and insurance stocks. While Japanese equities made a strong start in 2002, they still ended the year 17%

down. In stark contrast to other global markets the real value of Japanese equities (even with dividends reinvested) has now fallen by over 70% since the end of 1989.

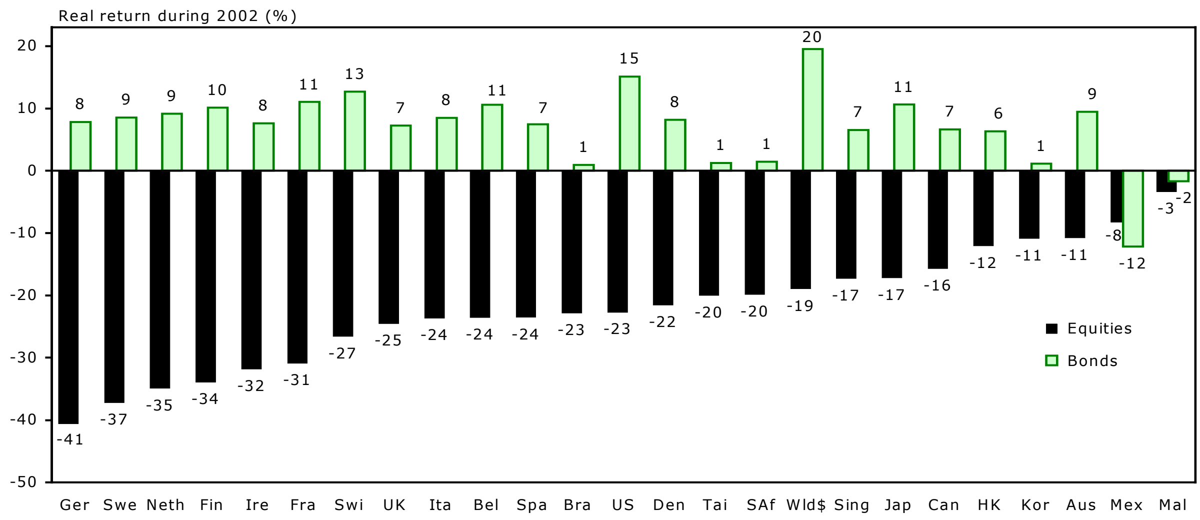
Though it is now hard to believe, the Japanese market was once larger than that of the US. At the end of 1988, Japanese equities made up 40% of the world total, compared with 29% for the US. The report also finds that France is today the world's fourth largest market with 3.9% of world capitalisation, while Switzerland (3.0%) ranks fifth, having pushed Germany (2.5%) into sixth place.

Despite the difficult opening years of the 21st century, the 103 years history of returns evaluated in the research clearly shows that equities markets have rewarded investors over the long term, with equities having beaten bonds in all 16 of the markets in the authors' database.

In contrast with equity markets, the favourable performance of bond markets was significant during recent years. Chart 2 shows that the real return on long government bonds was positive in 22 of 24 countries, with negative returns occurring only in the relatively small markets in Mexico and Malaysia.

The best performing bond market was the US, with a real return of 15.1%, followed by Switzerland, with a real return of 12.7%. Most other countries with sizeable bond markets gave real returns in the range of 7 to 11%. Bonds beat equities everywhere, except in Mexico. Similarly, bonds beat bills in all 16 countries monitored in the Yearbook.

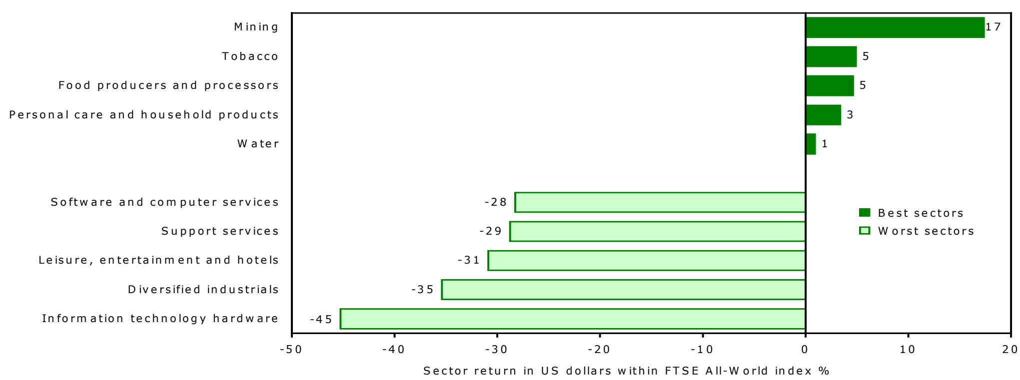
Chart 2 : Real returns from stocks and bonds around the world during 2002



Source: Dimson, Marsh and Staunton (ABN AMRO/LBS) and Thomson Financial Datastream

Chart 3 shows the best and worst sectors within the FTSE All-World index in 2002. Globally there are marked similarities with the UK. Four of the five best performers—tobacco, food producers, water, and personal care and household goods—also ranked in the UK's top five. The fifth, mining, also performed relatively well in the UK. Similarly, there was overlap among the worst sectors, with both the IT sectors also appearing among the UK's bottom five.

Chart 3 : Best and worst performing sectors in the world index during 2002



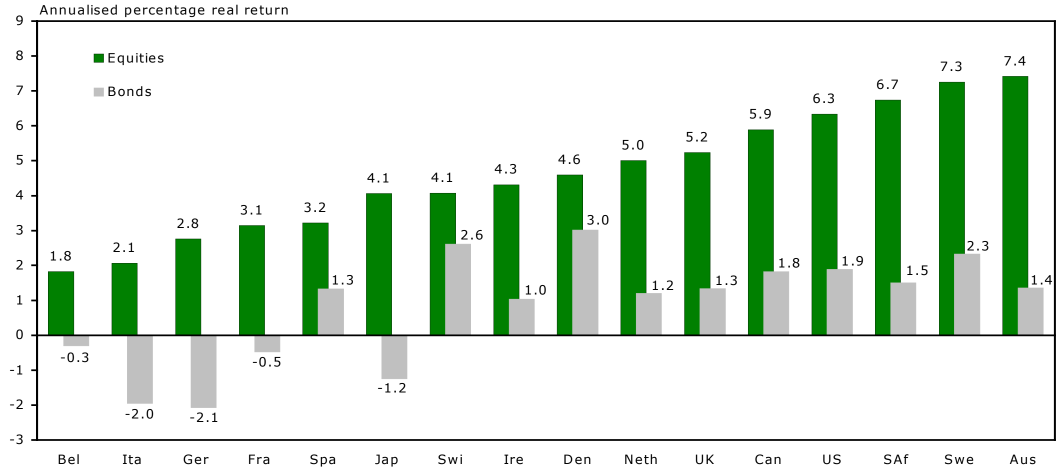
The study found that 2002 was the third year running in which value investing has dramatically outperformed growth investing. For investors focussed on yields the period March 2000 to the end of 2002 saw the highest yield quintile (i.e., the highest yielding 20 percent of the market) return 18% while the lowest yield quintile fell 73%.

The authors interrogate their 1648 country-year stock market database to discern any evidence of a bounce-back after a prolonged bear market. There is no such effect. They estimate that there is a 38% probability that there will be a negative real return on the UK equity market over 2003 (or to be more optimistic, a 62% probability of a positive real return). The probability of another bad year is essentially unaffected by the fact that markets have already experienced three bad years in a row.

The study examines how long it will take until the stock market index returns to its all-time (end-1999) high. The authors estimate that there is a 50% probability of breaking through the all-time high by 2018, and a 50% chance the breakthrough will come later than that. The total returns version of the stock market index, which includes reinvested dividends, will naturally recover faster, shortening the timescale from 2018 to 2010.

Chart 4 shows that despite their strength in the recent past, bonds have done much worse over the long term, underperforming equities in all 16 countries. The real rates of return on equities have ranged from around 2% (Belgium and Italy) to over 7% (Sweden and Australia).

Chart 4 : Real returns on equities versus bonds internationally, 1900–2002



* *Excluding 1922–23 for German bonds only.*

Source: Dimson, Marsh and Staunton (ABN AMRO/LBS) and Triumph of the Optimists, Princeton University Press, 2002

Stock market return projections underpin the funding of many pension plans. The authors are critical of excessively large projected returns, especially in the United States. They claim that many investors and corporate executives are “irrationally optimistic” about future equity market performance. They show that, historically, the risk of achieving a negative real return from equities has in most countries been appreciable, even when the holding period is as long as 20 years.

The study is written by Professors Elroy Dimson and Paul Marsh and Dr Mike Staunton, authors of *Triumph of the Optimists*, the best-selling investment book, which was published in 2002.

PLEASE NOTE:

High resolution photographs and graphics from the report are available at www.newscast.co.uk under the section titled ABN AMRO/London Business School.

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Elroy Dimson and Paul Marsh are professors of finance at London Business School, and Dr Mike Staunton is director of the LBS's share price database. Dimson and Marsh designed the FTSE 100 index, and since 1987 have produced the Hoare Govett Smaller Companies Index for ABN AMRO. Staunton produces the LBS *Risk Measurement Service*, which provides risk estimates for all UK equities.

ABN AMRO

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London Business School

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