

Chicago QWAFEFW

discussion of

Small Cap Investing

presented by

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Presentation Overview

- Rebalancing Drag on Russell 2000
- Profitable Trading Opportunities
- Implications For Active vs. Passive Debate and Manager Selection

Russell 2000 Rebalancing

- Rank all US stocks by May 31 market cap
- Rebalance Russell 2000 on June 30 to include stocks with market cap rank from 1,001 to 3,000
- **Major Weakness:** majority of stocks entering/leaving index are known well in advance of rebalancing date

Rebalancing Impact: Quarterly

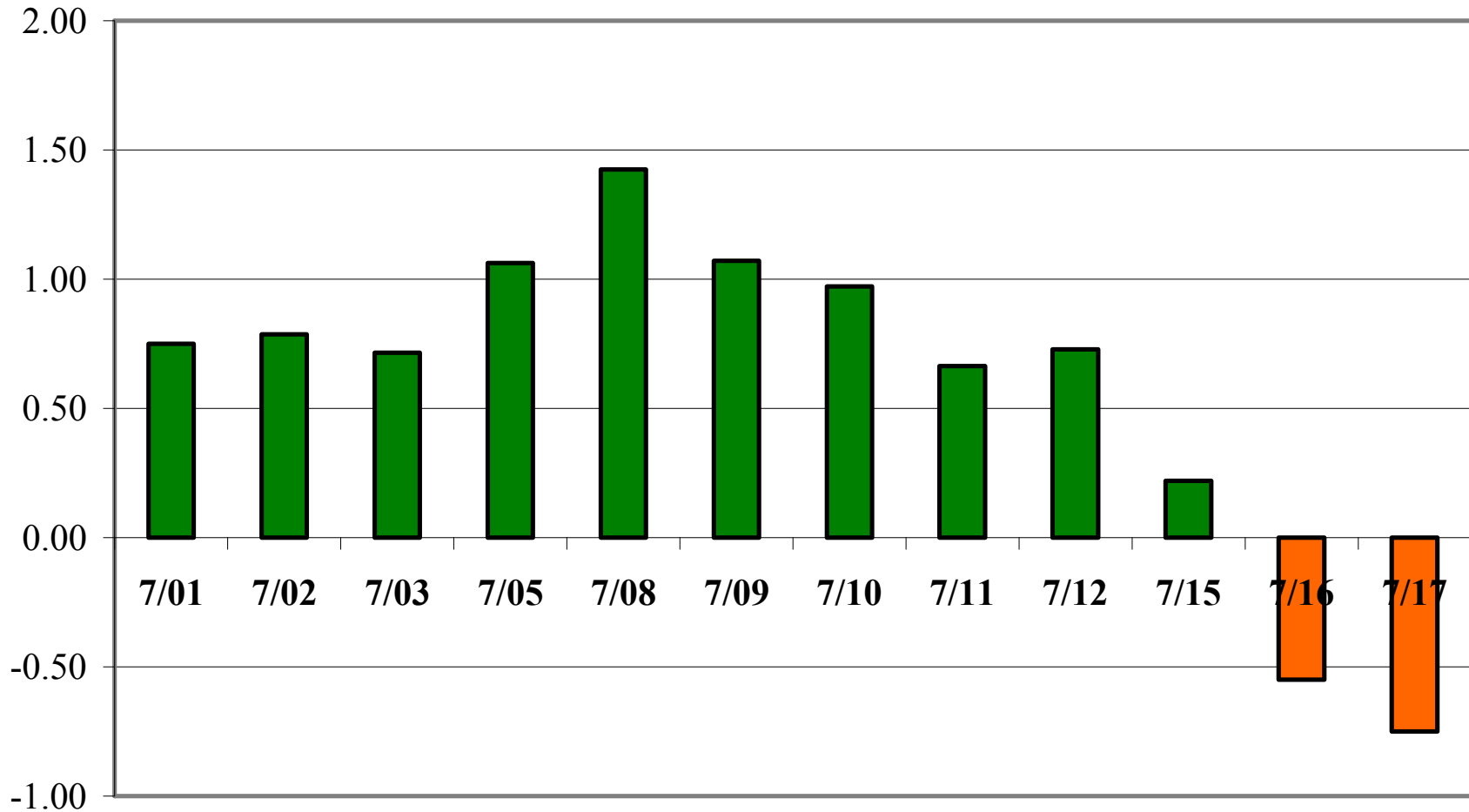
Average Quarterly Excess Return (S&P 600 - Russell 2000)					
1994/01 - 2001/12					
Quarter	Average	Minimum	Maximum	Stdev	T-signif.
1st	-0.77	-3.57	1.01	1.60	85.8%
2nd	0.78	-0.58	4.79	1.78	83.7%
3rd	1.80	-0.77	3.88	1.47	98.8%
4th	0.19	-5.99	8.16	3.92	54.5%

Rebalancing Impact: Monthly

Average Monthly Excess Return (S&P 600 - Russell 2000)					
1994/01 - 2001/12					
Month	Average	Minimum	Maximum	Stdev	T-signif.
January	-0.79	-2.59	0.33	0.91	96.1%
February	-0.16	-3.12	1.71	1.40	60.9%
March	0.09	-1.91	2.89	1.34	56.2%
April	0.51	-2.35	4.30	1.85	73.6%
May	0.33	-0.85	2.87	1.19	73.7%
June	-0.13	-2.81	1.17	1.16	60.6%
July	1.47	-0.40	3.74	1.24	98.7%
August	0.44	-0.70	1.24	0.67	91.9%
September	-0.10	-1.70	0.77	0.79	61.3%
October	0.54	-0.66	5.09	1.92	74.3%
November	-0.12	-1.79	1.07	0.82	63.9%
December	-0.12	-3.10	3.73	1.96	55.9%

Rebalancing Impact: Daily

Cumulative Excess Return (S&P 600 - Russell 2000)



From 6/30/02 to Indicated Day



Implications For Active vs. Passive

Small Cap Manager Performance 1997/01 - 2001/12

Style	#	Russell Benchmark			S&P Benchmark		
		Return	# outperform	% outperform	Return	# outperform	% outperform
Value	157	11.20%	111	70.7%	12.78%	92	58.6%
Blend	88	7.52%	77	87.5%	10.66%	56	63.6%
Growth	89	2.87%	83	93.3%	7.05%	69	77.5%

Large Cap Manager Performance 1997/01 - 2001/12

Style	#	Russell Benchmark			S&P Benchmark		
		Return	#outperform	%outperform	Return	#outperform	%outperform
Value	88	11.21%	49	55.7%	9.49%	69	78.4%
Blend	254	10.50%	187	73.6%	10.70%	170	66.9%
Growth	138	8.59%	105	76.1%	11.10%	62	44.9%