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MARK HULBERT

Ding dong! The wicked bear is dead!

By [Mark Hulbert](#), MarketWatch

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ANNANDALE, Va. (MarketWatch -- Assume for the moment that you had the bad luck to invest a lump sum in the stock market at the absolute worst possible time - the March 2000 top.

Would you by now have recovered all of your bear market losses and then some, and thus be sitting with a profit?

Or would you still be in the red?

You'd think that answering these questions would be relatively straightforward, at least for the average investor.

But you would be wrong.

Various stock market benchmarks paint widely contrasting pictures. Some today are well behind their March 2000 levels. Others are well ahead.

Take your pick.

On the one hand, consider how much red ink you would still be swimming in if you favor large-cap growth stocks - the kind represented by the Russell 1000 Growth Index. If you had invested \$100,000 in such stocks at the March 2000 top, your portfolio would be worth \$56,180 today, according to data from Frank Russell Company - a cumulative loss of nearly 44%.

(I calculated these returns through Wednesday night from March 24, 2000, the day the S&P 500 ([SPX: news](#), [chart](#), [profile](#)) hit its all time high.)

On the other hand, if you had invested in small-cap value stocks, as represented by the Russell 2000 Value Index, the 2000-2002 bear market would be little more than a distant memory. Your portfolio that was worth \$100,000 on March 24, 2000, would now be worth \$221,539 - for a cumulative gain of more than 121%.

To be sure, these two indexes represent the extremes. But as is evident from the accompanying table, different market sectors and investing styles have had dramatically different experiences over the last five-and-a-third years.

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Index	\$100k invested on 3/24/00, as of 7/13/05
RUA Russell 3000	\$90,953
RHN Russell 3000 Growth	\$57,152
RHK Russell 3000 Value	\$140,058
RIR Russell 1000	\$88,714
RIJ Russell 1000 Growth	\$56,180
RHJ Russell 1000 Value	\$135,105
RDD Russell Midcap	\$137,977
RDU Russell Midcap Growth	\$69,431
RDW Russell Midcap Value	\$206,382
RUT Russell 2000	\$124,607
RUC Russell 2000 Growth	\$70,225
RUU Russell 2000 Value	\$221,539

Choosing the proper index is of more than just passing interest. Because many investors judge their advisers by comparing them to a benchmark, it is possible that the same adviser can appear to be a genius in some investors' minds and a dolt in others.

Consider, for example, the 114 newsletters for which the Hulbert Financial Digest has performance data extending to the March 2000 peak. No fewer than 99 of them have outperformed the Russell Large Cap Growth Index.

Yet only three have outperformed the Russell 2000 Value Index.

So, depending on what they are being compared to, it can be made to look like 87% of the newsletters have added value, or only 3%.

What index should you choose to analyze your portfolio? I wish there were an easy answer.

To be sure, you could pick one of the Russell indexes if your portfolio invests more or less exclusively in one of the market sectors and styles represented by that index. But this won't work if your portfolio is more eclectic, which is the case for most investors.

There are some sophisticated econometric analyses you can employ, that in effect compare your portfolio to a customized benchmark that includes the same kinds of stocks owned by your portfolio. But unless you have an econometrician at your beck and call, this is not a practical option for most of us.

At a minimum, therefore, or at least until there is a better solution, I suspect we should be more tentative in concluding that this or that adviser has "beaten the market."

Editor's note: The most recent edition of the Hulbert Financial Digest is available by e-mail or regular mail. Highlights include:

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-- Special supplement: Long-term performance ratings on more than 500 newsletter portfolios

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Mark Hulbert is the founder of Hulbert Financial Digest in Annandale, Va. He has been tracking the advice of more than 160 financial newsletters since 1980.

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