OSBON
CAPITAL MANAGEMENT

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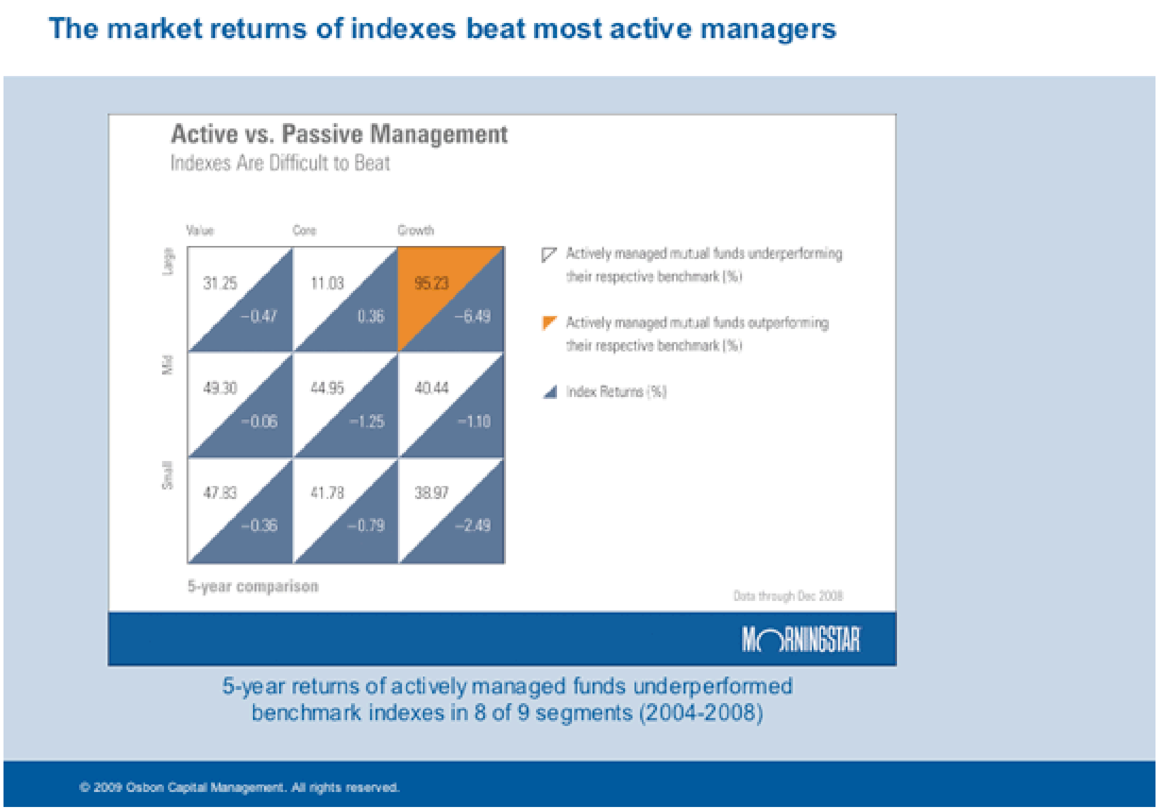
Quick Q & A #4

Q: How can average be above average?



A: Index investors beat the average actively managed fund.

Some critics try to discredit index investing with the argument that indexes only deliver average returns. It's true – index funds and ETFs are designed to track, not outperform, the returns of benchmarks such as the Dow or S&P 500. However this "average" performance has historically beaten the results of many actively managed mutual funds…run by highly educated, well-paid managers hired specifically to outperform the market.

The numbers are compelling. The Vanguard Index 500 beat 78% of actively managed funds between 1980-1999[1]. And the diagram above shows that in 8

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of 9 size/style categories – shown as white triangles – indexes beat actively managed funds over the last five years.

It turns out indexes are hard to beat. Average can be above average.

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Next time: Are all ETFs better than mutual funds?

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[1]David Swensen, *Unconventional Success: A Fundamental Approach to Personal Investing, 2005*

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The index returns are based on the following: iShares Morningstar Small Value Index Fund JKL; iShares Morningstar Small Growth Index JKK; iShares Morningstar Small Core Index Fund JKJ; iShares Morningstar Mid Value Index Fund JKI; iShares Morningstar Mid Growth Index Fund JKH; iShares Morningstar Mid Core Index Fund JKG; and iShares Morningstar Large Value Index Fund JKF. The mutual fund returns includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history as of June 30, 2009.

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The historical returns are not net of advisory and/or other fees and expenses. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this Q&A will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

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