



Investor Update

LONG-TERM EXPERIENCE OFFERS HOPE FOR TROUBLED INVESTORS

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Harvard Epworth UMC sold a piece of property in 1973, and the Trustees invested the proceeds in CD's and Treasury notes. After interest rates peaked in the early 80's at well over 10% per year, the portfolio was gradually invested in a more diverse holding of bonds and about a dozen high quality equity holdings – all managed directly by the Board of Trustees. Late in 1993 the decision was made to liquidate all these holdings and invest the total portfolio in the Consolidated Investment Fund (CIF) then administered by the Conference Trustees of the Southern New England Annual Conference. That Fund was a balanced fund, composed of 60% stocks and 40% bonds. Shortly thereafter, the Consolidated Investment Fund was transferred to the United Methodist Foundation of New England and became the Balanced Growth Fund. Harvard Epworth benefited from professional management provided by the Foundation and achieved substantial growth in its investment portfolio during the balance of the 90's.

The past three years of back-to-back negative returns in the stock market, the likes of which have not been seen since the depression in the 1930's, have been unsettling to even seasoned investors. Harvard Epworth has seen the value of its portfolio decrease by almost 20% since the beginning of 2000. It occurred to me that it might be helpful to see this recent decline in value in the multi-year perspective since we turned our funds over to the Foundation in 1993. To that end, I have taken one of our funds, the "Music Fund," and tabulated its market value and income production since 12/31/93 as follows:

Year Ending	Market Value (\$)	Approx Yield (%)	Approx Income (\$)
12/31/93	5,239		
12/31/94	5,019	3.5	176
12/31/95	6,041	3.3	198
12/31/96	6,779	3.2	214
12/31/97	7,802	2.8	216
12/31/98	8,813	2.5	220
12/31/99	13,322	2.0	268
12/31/00	13,229	2.6	348
12/31/01	12,617	3.5	437
12/31/02	10,837	2.9	337
			2,414

This tabulation places both the earlier gains and the more recent losses in a longer-term perspective. It is noteworthy that the value of our Music Fund, even after the losses of the last three years, is still more than double its value at the end of 1993. And it has also surpassed inflation; using an average inflation figure of 2.5% since 1993, our original \$5,239 value would have to have grown to \$6,543 to preserve its purchasing power. The final value of \$10,837 obviously far surpasses the inflation-adjusted principal amount. And, in addition, the church has enjoyed an income of over \$2,400 from this fund to benefit its music program.

The experience of Harvard Epworth should be representative of many other churches in the previous Southern New England Conference who had endowment funds invested in the Balanced Growth Fund with the Foundation over this period of time.

To explore what churches in the previous New Hampshire Conference might have experienced, I asked Foundation personnel to provide me with total annual return data since the New Hampshire Trustees distributed their holdings directly to their investing churches, and had them invested with the Foundation as of 12/31/93. The New Hampshire Trustees had typically invested their portfolio in a balance of stocks and bonds, although their asset allocation was

*Editor's Note: G. Neil Harper served as Chairperson of the Foundation's Board of Directors from its inception until June 2002.

different from the Southern New England Conference Trustees' allocation. For New Hampshire, the ratio was 40% stocks and 60% bonds. This New Hampshire portfolio became the basis for the Foundation's Balance Income Fund.

My calculations for a typical New Hampshire fund with an initial value of \$10,000 on 12/31/93 invested in the Foundation's Balanced Income Fund shows a loss of over \$2,500 since 12/31/99. Despite this loss, the final market value as of 12/31/02 was \$14,154, even after distributing over \$4,000 of income during the nine years. To keep up with inflation, the original \$10,000 would have to have grown to about \$12,500. The Balanced Income Fund has more than preserved the purchasing power that was distributed to churches at the end of 1993 and has, in addition, provided reasonable annual income for programmatic purposes.

There are two essential lessons that we can learn from this review:

- (1) That a long-term perspective (preferably 10 years or more) is likely to provide a calmer (and more hopeful) perspective than a view that encompasses only a two or three year period; and
- (2) That a balanced portfolio, composed of broadly diversified holdings of both stocks and bonds, is likely to protect the purchasing power of one's principal and to provide a reasonably dependable stream of income over the long term.