

INVESTMENTWISE

Oxy Quarterly Investment Review

Second Quarter 2000

This newsletter was prepared by Frank Russell Trust Company, investment consultants to Oxy retirement plans.

Small Cap Stock Funds

Why Invest in Smaller Companies?

Think of Microsoft as the poster child for small capitalization stocks — more commonly called Small Caps. In the early 1990s, Microsoft traded on the NASDAQ* as a Small Cap. Newer start-up companies comprise much of the Small Cap asset class, but we're not talking "mom and pop" here.

Small Cap companies included in most mutual funds have a market capitalization ranging from several hundred million to around \$1 billion raised by selling shares of their stock.

At the beginning of the 21st century, Microsoft still trades on the NASDAQ with one difference. It has grown into one of the largest companies in the world, reaching more than \$450 billion in capitalization by the end of 2nd quarter 2000.

Therein lies an answer to the question, "Why invest in smaller companies?" Like Microsoft, they may produce great wealth from robust growth. A downside: many smaller companies lack the resources to survive the tough times in their businesses, their industrial sectors, the financial markets or the economy. Their fragile nature, compared to big blue-chip companies, defines them as Small Cap risks, both as individual securities and in the aggregate as an asset class.

Good Times Recently

These days, small capitalization investments are all the rage. People discuss hot new companies at the dinner table and water fountain the way they talk about pro football and next year's hem lines.

Nevertheless, consider the difference in staying power between an established

\$350 billion giant and a \$1 billion start-up company. Large companies may fall on hard times and operate at a loss for

years before they either fold or recover. Small companies often don't recover from a fall because they aren't as well financed and

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often, don't have a variety of products or services that diversify their presence in the marketplace. Consequently, they don't have as much time as larger companies before they run out of resources. When you invest in Small Cap funds, you are investing in the hope that more of its holdings will succeed than fail, and that the fund's manager "knows when to hold 'em and when to fold 'em." In fact, for the past 10 years through the end of 1999, Small Cap fund managers have, on average, outperformed the Small Cap market overall by more than 2%.

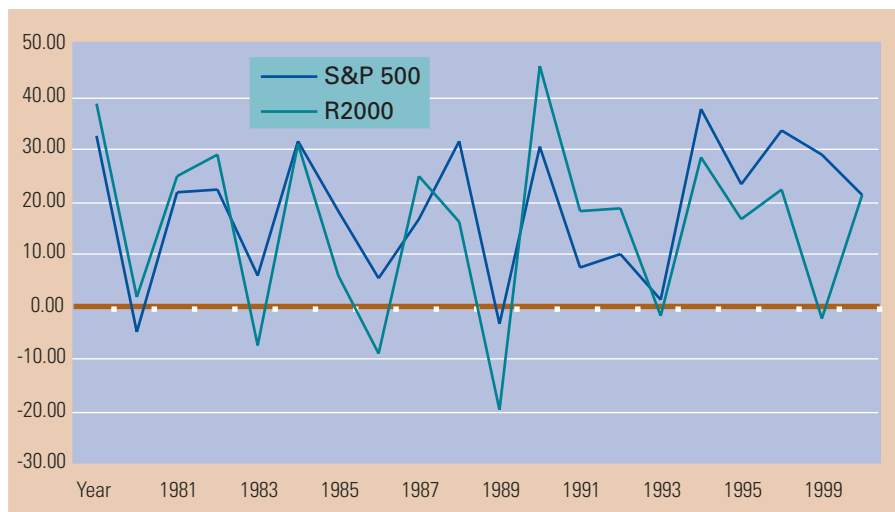
Growth Versus Value

Many Small Cap stocks are growth stocks. If they aren't already sound, the

Continued on page 2

*National Association of Securities Dealers Automated Quote System, the market where most Small Cap stocks (and an increasing number of Large Cap stocks) are traded.

Small Cap & Large Cap US Markets Often Trade the Lead



S&P 500 Stock Index: An index, with dividends reinvested, of 500 issues representative of the US Large Cap securities market. Russell 2000® Index: An index of 2,000 issues representative of the US Small Cap securities market. Note that Small Cap and Large Cap market performance often trade the lead. Also note that the Small Cap market is often more volatile, having larger swings from cycle to cycle.

Small Cap Stock Funds Continued from page 1

business they practice may hold great promise even though they may not yet be profitable. Small Cap growth companies often direct their profits back into the business as retained earnings and pay little or no dividends to shareholders. They use their profits to grow the business, and investors receive their earnings as increased stock value.

However, some investors look for Small Cap value companies that are out of favor. These companies may have been taken over, have new management or have changed their marketing strategy. These stocks have the potential to regain past value.

Combined, these growth- and value-oriented Small Cap stocks offer the potential of high returns and diversification to complement

those of other equity (stock-based) asset classes when combined in a portfolio.

The chart on page 1 compares how the markets for large and small capitalization company stocks have performed over the past 20 years. As you can see, the stock market was generally volatile, showing large performance swings from time to time. The

past 20 years have been strong overall for investors in stocks, including Small Cap. The chart illustrates how Large and Small Cap stocks relate over time. As you can see, Small Cap and Large Cap stocks have frequently traded the lead.

Are You a Small Cap Investor?

If you seek the potential rewards that accompany higher returns and are willing to

accept higher risk, you may find it in the Small Cap market. Most Small Cap stock funds are highly diversified to lessen the risk of investing in individual small companies that could have the potential to fail or perform poorly. However, protection comes at a price. You probably won't see a Small Cap fund that grows like a star Small Cap stock — Microsoft, for example.

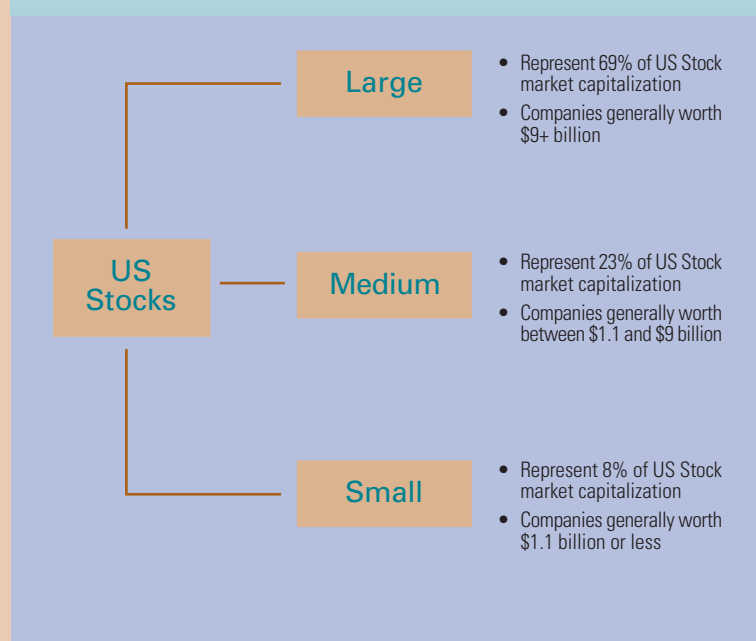
Nevertheless, you'll notice that Small Cap stocks sometimes move at different times (see "1999" in the chart) and to different degrees than Large Cap stocks and other asset classes. Adding a Small Cap fund to your investments may pay you back by further diversifying other investments, thereby increasing the stability of your portfolio overall. Also, adding Small Cap to Mid and Large Cap equities will invest you in the entire US stock market. Small Cap has a significant share of the total value of the market — about eight percent — which has the potential to add value over time.

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Cap Sizes

You can divide the stock market into three sectors based on the value of their capitalization — all the stocks priced in the market. Large Capitalization (or "Cap") companies are comprised of the 500 largest or so companies traded on the market. Mid-Cap companies roughly fall from the 501st to the 1,000th largest, and Small Cap companies make up the rest — from nationally known organizations, like Tiffany's, Inc. (large jewelry store chain), down to the newest pink-slip penny stock. Different indexes of these "Cap" sizes are used as benchmarks to measure the performance of similarly sized stocks and funds. You'll see them listed in the Wall Street Journal and the financial sections of most daily newspapers. For example, the S&P 500 Stock Index is used to measure Large Cap stocks. The Russell 2500 Index is used to measure Mid Cap and Small Cap stocks combined, and the Russell 2000® Index is commonly used to measure Small Cap stocks with capitalizations from \$1.1 billion or less. The broadest index is the Wilshire 5000, which tracks all stocks from the largest company down to the smallest.

Asset Class Characteristics



Asset Classes – Another Way to Separate Investments

Variety is the spice of life and investments both. Different kinds of investments are often called asset classes. Separately, they offer distinct patterns of performance.

Equities, for example, offer high potential long-term returns accompanied by high volatility — ups and downs in the short-term. Fixed income investments offer lower potential returns, but tend to gain and lose value to lesser degrees. You may base your investment choices on your need for future savings, your time horizon, and your appetite for risk.

Combined, these asset classes can offer further diversification because their markets often move up and down at different times and to different degrees. Diversification tends to smooth out the ups and downs. You won't likely make a killing with a diversified portfolio but you will

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likely reduce the risk of losing significant savings at any given point in time. Note that the PSA and PRA funds that combine asset classes

have lower historic highs, but also show lower historic lows than equity-based funds that don't diversify across asset classes.



Some Definitions

Large Company US Stocks

Also called Large Cap US stocks, these are shares of large US companies worth billions of dollars. They represent ownership in the company. As an owner, you may expect to get paid when the company makes a profit, either with

a dividend, an increase in the value of the stock or both combined. They are a key component in a number of the funds offered in the PSA and PRA.

Small Cap US Stocks

These are stocks issued by small US companies, usually worth \$1 Billion or less. Small companies are often riskier investments because they do not have the resources of large companies and may not last as long when times are hard. However, they represent a significant part of the overall US stock market and the potential for high performance accompanying their high risk. Highly successful small companies usually grow into large companies. The PSA offers the Small Cap Stock Fund, which invests in small US companies. Small Cap stocks also make up part of the PRA's Conservative, Moderate and Aggressive strategies.

International Stocks

Companies headquartered outside the US and traded on foreign markets issue stocks, which are considered international in the US. These companies are large, successful operations. They give the investor exposure to the fortunes of foreign firms and offshore economies. Moreover, international stocks offer diversification because they often increase and decrease in value at different times than US stocks. The PSA offers an International Growth Fund and international stocks are part of the PRA's Moderate and Aggressive Strategy funds.

Fixed Income Investments

Companies, governments, their agencies, and other financial institutions borrow money. One of the ways they package these loans is as a fixed income investment — return of the principal plus a fixed rate of return (or interest).

These investments include money market instruments (of very short maturity — three months or so), bonds ranging from less than a year to over 30 years and investment contracts issued by insurance companies and banks only for retirement savings plans. When you buy a fixed income investment you are loaning money. Fixed income investments usually pay lower returns because they are usually less risky than stocks. Two things increase risk and return in a fixed income security; its maturity (or the length of the loan) and any increased chance that the borrower won't pay the lender. The PSA's and PRA's Stable Value Funds invest in stable value contracts. Some of the PSA's funds and the PRA's strategy funds also contain percentages of bonds and other fixed income instruments.



Second Quarter Market Review

And the Beat Goes On

As the bull market ages, a new trend is emerging. Many investors have started to take caution, selling US stocks that hinted at disappointing earnings estimates. The market suffered overall with many so-called “new economy” companies still unprofitable, and larger companies falling short of earnings expectations.

As the bull market ages, many investors take caution, selling US stocks issuing disappointing earnings pre-announcements.

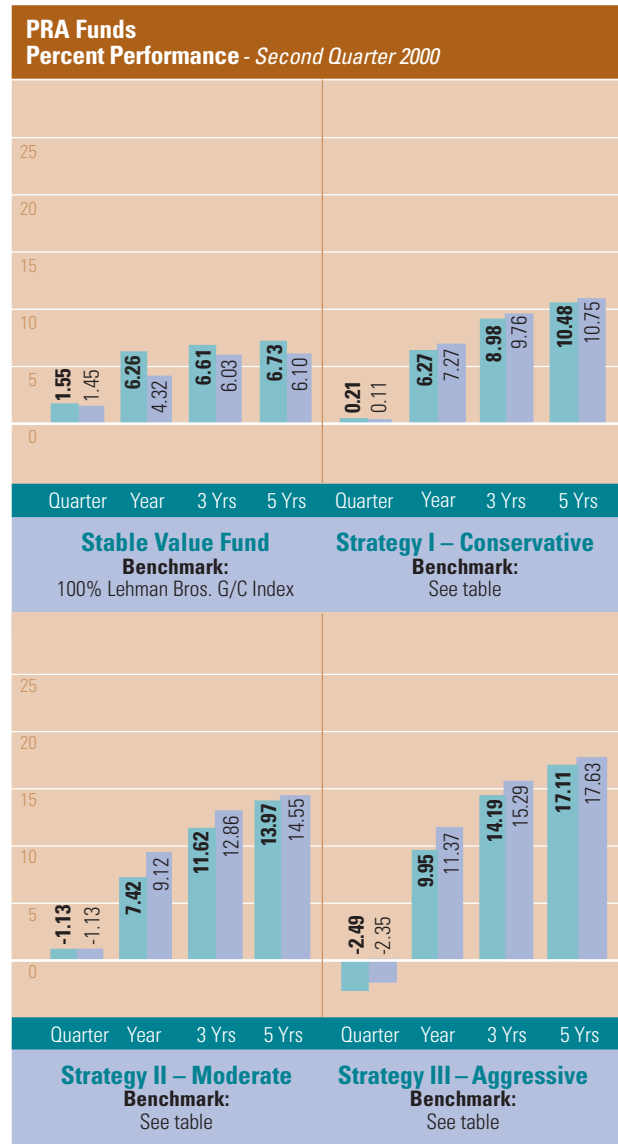
The S&P 500 Index is down 2.9%. Small Cap stocks, (the Russell 2000® Index), are down 4.1% for the quarter.

Overseas, the Morgan Stanley Capital International Europe, Australia and the Far East (MSCI EAFE) is down around 4%. Performance for

foreign stocks has been weak, both in Europe and the Pacific Rim.

Bonds have gained slightly as the Federal Reserve’s economy-slowng measures have refocused the attention of many investors. The Lehman Brothers Aggregate Bond Index was up 1.7% for the quarter.

PRA Funds Percent Performance - Second Quarter 2000		Fund	Benchmark
Stable Value Fund 100% Lehman Bros. G/C Index	Quarter	1.55	1.45
	1 Year	6.26	4.32
	3 Years	6.61	6.03
	5 Years	6.73	6.10
Strategy I – Conservative 10% Russell 2500™ Index, 21% S&P 500 Index, 4% L.B. Treas. 20+ Bond Index, 43% L.B. Aggr. Bond Index, 11% Merrill Lynch 1-3 Yr. T-Bond Index, 11% Salomon Bros. 3 Mo. T-Bill Index	Quarter	0.21	0.11
	1 Year	6.27	7.27
	3 Years	8.98	9.76
	5 Years	10.48	10.75
Strategy II – Moderate 13% Russell 2500™ Index, 39% S&P 500 Index, 5% MSCI EAFE Index, 8% L.B. Treas. 20+ Bond Index, 35% L.B. Aggr. Bond Index	Quarter	(1.13)	(1.13)
	1 Year	7.42	9.12
	3 Years	11.62	12.86
	5 Years	13.97	14.55
Strategy III – Aggressive 15% Russell 2500™ Index, 52% S&P 500 Index, 15% MSCI EAFE Index, 8% L.B. Treas. 20+ Bond Index, 10% L.B. Aggr. Bond Index	Quarter	(2.49)	(2.35)
	1 Year	9.95	11.37
	3 Years	14.19	15.29
	5 Years	17.11	17.63



Oxy INVESTMENTWISE

To learn more about the PSA/PRA, refer to the *Summary Plan Descriptions* located in your Oxy Employee Benefits Handbook and past issues of *Oxy Benefits News and InvestmentWise*.

If you would like to obtain these documents, contact The *OxyLink* Employee Service Center at 800-699-6903, or access *OxyLink* On-Line at oxylink.oxy.com.

InvestmentWise is prepared by Frank Russell Trust Company. Founded in 1936, Russell is investment consultant to many of the world’s largest corporate retirement funds, including the Oxy PRA. The intent of this publication is to provide useful investment information, not investment advice.

Key

Fund Benchmark

Participants are responsible for their own investment decisions. Nothing contained in this publication is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

PSA Funds - Percent Performance - Second Quarter 2000		Fund	Benchmark
Stable Value Fund 100% Lehman Bros. G/C Index	Quarter	1.55	1.45
	1 Year	6.27	4.32
	3 Years	6.39	6.03
	5 Years	6.35	6.10
	Quarter	0.58	(1.15)
Diversified Balance Fund 60% S&P 500; 40% LB G/C Int. Bond Index	1 Year	(1.30)	6.44
	3 Years	9.14	14.49
	5 Years	13.38	16.77
	Quarter	(1.34)	(1.15)
	1 Year	7.73	6.44
Asset Allocation Fund 60% S&P 500; 40% LB G/C Int. Bond Index	3 Years	14.78	14.49
	5 Years	17.44	16.77
	Quarter	(2.57)	(2.87)
	1 Year	7.40	7.42
	3 Years	19.77	19.76
S&P 500 Index Fund 100% S&P 500 Index	5 Years	23.77	23.89
	Quarter	(3.95)	(2.87)
	1 Year	9.80	7.42
	3 Years	22.39	19.76
	5 Years	20.97	23.89
Large Cap Balanced Fund 100% S&P 500 Index	Quarter	(6.59)	(2.87)
	1 Year	10.47	7.42
	3 Years	21.84	19.76
	5 Years	22.58	23.89
	Quarter	(5.11)	(3.90)
Large Cap Growth Fund 100% S&P 500 Index	1 Year	44.01	17.44
	3 Years	—	10.48
	5 Years	—	11.63
	Quarter	(5.75)	(2.87)
	1 Year	(24.81)	7.42
Large Cap Value Fund* 100% S&P 500 Index	3 Years	—	19.76
	5 Years	—	23.89
	Quarter	3.50	(3.78)
	1 Year	(0.60)	14.32
	3 Years	—	10.57
Small Cap Stock Fund** 100% Russell 2000®	5 Years	—	14.27
	Quarter	(0.07)	(2.87)
	1 Year	(0.33)	7.42
	3 Years	(5.35)	19.76
	5 Years	(1.26)	23.89
Oxy Stock Fund 100% S&P 500 Index	Quarter	(0.77)	1.23
	1 Year	—	(1.44)
	3 Years	—	3.54
	5 Years	—	6.87
	Quarter	1.82	1.74
High-Yield Bond Fund*** 100% Salomon High Yield Market Index	1 Year	—	4.57
	3 Years	—	6.04
	5 Years	—	6.25

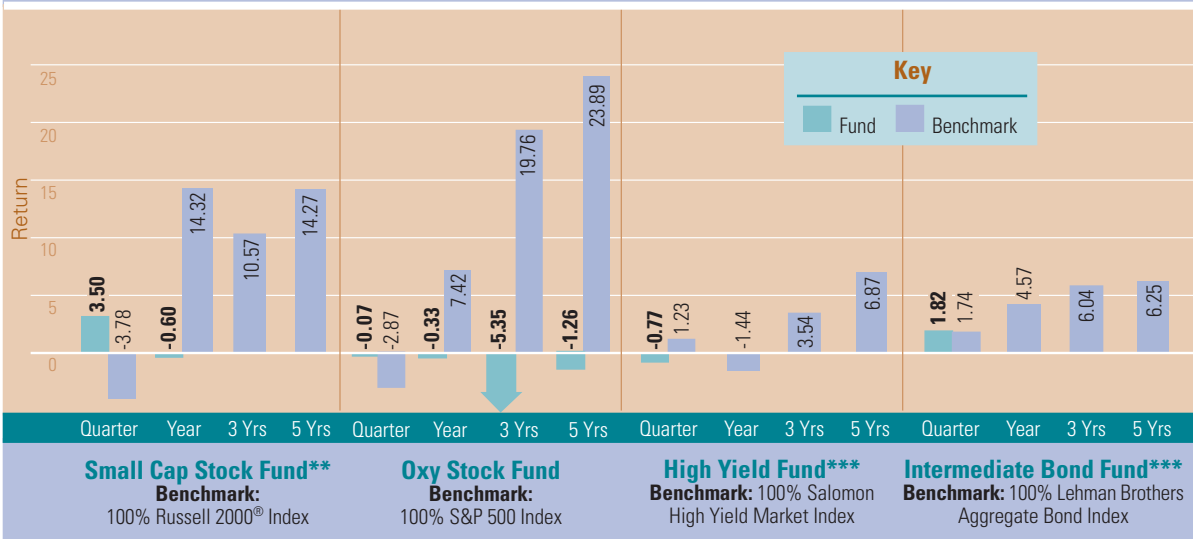
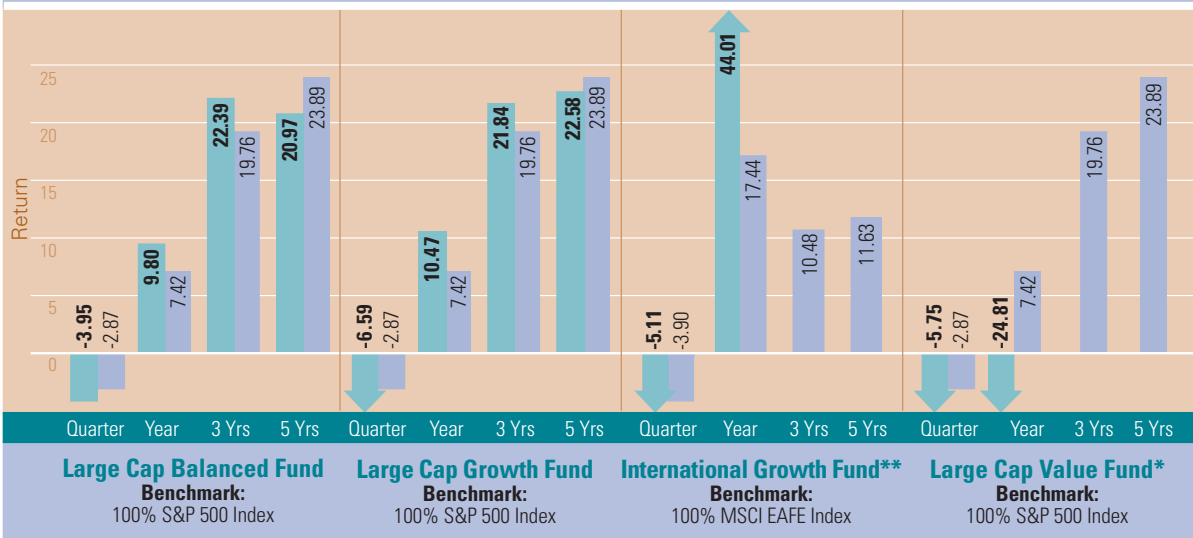
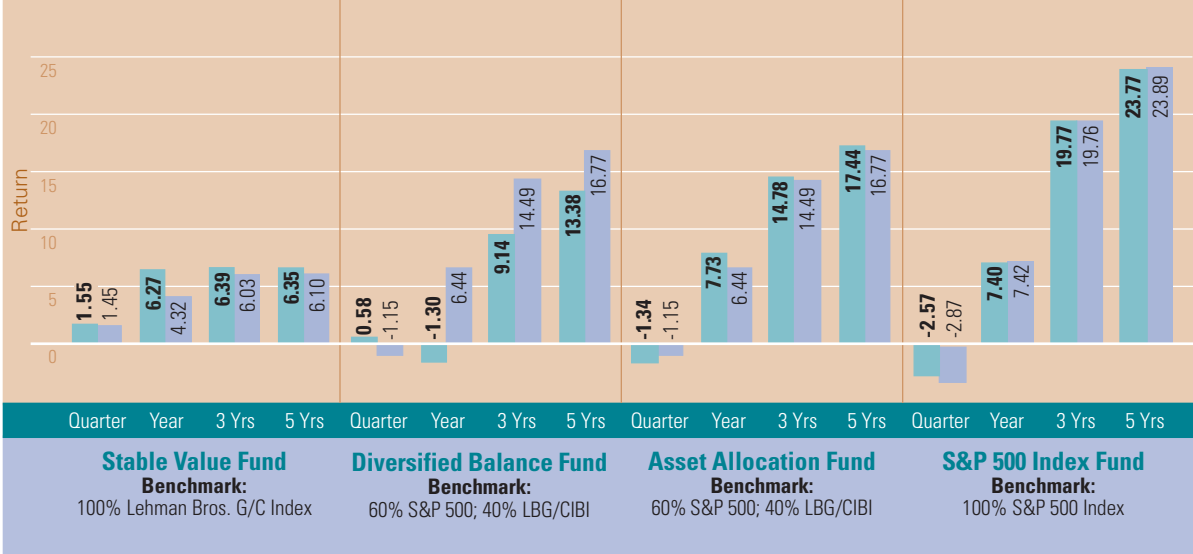
Performance is net of investment management fees. Performance quoted represents past performance and should not be viewed as a representation of future results. The investment return and principal value of an investment will fluctuate over time, so that when distributed from the plan, may be worth more or less than the amount of the original investment.

*New Fund Inception Date July 1, 1998

**New Funds Inception Date January 1, 1998

***New Funds Inception Date October 4, 1999

PSA Funds - Percent Performance Second Quarter 2000



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