

March 2012

Asset Class Returns

February 29, 2012 (YTD)

	YTD 2012	Last 10 yrs.*	2011	2010	2009
Bonds (%)					
One-year	0.3	2.6	0.6	1.2	1.9
Five-year	1.2	4.5	4.5	5.3	4.2
Intermediate	0.2	6.4	9.4	6.9	-0.7
Long-term	-2.0	8.7	29.3	8.9	-12.1
U.S. stocks (%)					
Large Market	8.9	2.8	2.1	14.9	26.5
Large Value	11.0	4.6	-3.1	20.2	30.2
Small Market	9.8	6.7	-3.2	30.7	36.3
Small Micro	9.0	7.1	-3.3	31.3	28.1
Small Value	10.8	8.1	-7.6	30.9	33.6
Real Estate	5.2	10.1	9.0	28.7	28.2
International stocks (%)					
Large Market	11.2	4.9	-12.3	9.3	30.6
Large Value	12.2	7.6	-16.9	10.6	39.5
Small Market	14.0	11.0	-15.4	23.9	42.0
Small Value	16.6	11.9	-17.5	18.1	39.5
Emerg. Mkts.	16.7	14.2	-17.4	21.8	71.8

Descriptions of Indexes

One-Year bonds	DFA One-Year Fixed Income fund
Five-Year bonds	DFA Five-Year Global Fixed
Intermediate bonds	DFA Intermed. Gov't Bond fund
Long-term bonds	Vanguard Long-term U.S.Treas.
U.S. Large Market	DFA U.S. Large Co. fund
U.S. Large Value	DFA Large Cap Value fund
U.S. Small Market	DFA U.S. Small Cap fund
U.S. Small Micro	DFA U.S. Micro Cap fund
U.S. Small Value	DFA U.S. Small Value fund
Real Estate	DFA Real Estate Securities fund
Int'l Large Market	DFA Large Cap Int'l fund
Int'l Large Value	DFA Int'l Value fund
Int'l Small Market	DFA Int'l Small Company fund
Int'l Small Value	DFA Int'l Small Cap Value fund
Emerging Markets	DFA Emerging Markets fund

Last 10 yrs. returns are ended 12/31/11.

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Other Voices



Out of the Blocks

Jim Parker, Dimensional Fund Advisors, Australia

“And you thought 2011 was tough?” So went the headlines in December as media and market pundits, reflecting on a miserable year, saw no respite for investors in 2012. But markets have a funny way of confounding expectations.

To be sure, the reasons to be anxious were piling high as the year turned, with European politicians dithering over how to tackle a tottering mountain of sovereign debt, policymakers in the US running short of options, and emerging markets not providing the cushion that many investors had hoped for. The general view, as expressed through the media, was that there would be more muddling through in early 2012. “Buckle up!” warned the respected Barron’s magazine. “For investors frightened by the stock market’s volatility in the past six months and tired of worrying about places in Europe once given little thought, 2012 promises scant comfort—at least in the first half.”¹

As an investor, if you had taken that advice, you might be ruing it now, as global equity markets—as measured by the MSCI World Index—have registered their best start to a calendar year in twenty-one years. The index was up by just over 10% in US dollar terms as of the end of February. You have to go all the way back to 1991 to find a better start.

Added to that is that much of the leadership for the turnaround is coming from the US, an economy that many observers just two years ago were writing off in favor of the emerging powerhouse economies in Asia. The US benchmark S&P 500 was up by 9.0% at the end of February. This is also its best start since 1991 and returns the index to the levels of June 2008, before the Lehman collapse.

The US market’s strong start followed a standout 2011 in which it was one of the best-performing markets in the world. And that included most of the emerging markets.

Even Europe, the epicenter of concerns for much of the past year, has exploded out of the blocks in 2012. The Euro Stoxx 50 was up by

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nearly 12% over the first two months of the year, with the German market rising by close to 20% in US dollar terms.

The renewed buoyancy extended to Asia, where the MSCI Asia Pacific Index has registered ten consecutive weeks of gains, its longest uninterrupted winning streak since 1988, and powered by strength in energy stocks. Australian stocks have firmed as well, to be up 12.5% year to date in US dollar terms—although in local currency terms, the gain has been less stellar at just over 7%.

Why the change in mood? There are several catalysts for the turnaround in markets so far in 2012.

First, by the end of last year, market participants were discounting a lot of bad news, including a couple catastrophic scenarios. Fears of mass defaults in Europe and a possible breakup of the euro were seen as entirely possible.

While Europe can hardly be described as being out of the woods yet, the agreement by creditors on a new round of official funding for Greece has eased nerves, as has the European Central Bank's provision of another half-trillion euros in cheap funding to financial institutions.

Second, there have been signs of a turnaround in the US economy, at least compared to the view the market was taking a few months ago. At that time, another recession was seen to be in the cards. Since then, data has shown an improvement in the labor market, a rise in manufacturing orders, and a climb in consumer confidence.

Third, central banks are pumping out massive amounts of cheap cash—essentially printing money—to provide liquidity to the financial system and to support the recovery. As well as the ECB's latest cash injection, Japan and Britain have recently extended their so-called “quantitative easing” programs, while China has cut the reserve requirements for its banks.

Of course, just as it was wrong to extrapolate the pessimism of last year into 2012, it would be foolish to forecast that the rest of this year will

resemble the first two months in tone. No one knows how markets will perform going forward, because that requires an ability to forecast news. You can always guess, of course, but we tend to think that's not a sustainable investment strategy.

The point of this is to highlight the virtues of discipline and the tendency of markets to absorb news very, very quickly and to look forward to the next thing. Unless you know what the next thing will be, you are wise to stay in your seat.

1”Buckle Up!” Barron's, December 19, 2011.

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Back in the spring of 2009 I was approached by a middle-class investor in a panic. She had dumped all her stocks in the fall of 2008, following the Lehman Brothers collapse. By the time we spoke, the stock market had already rallied sharply, but she was too afraid to jump back in. She just didn't trust it. (*SmartMoney*)