

Asset Class Returns

July 31, 2013

| | YTD 2013 | Past 10 yrs.* | 2012 | 2011 | 2010 |
|---------------------------------|-------------|---------------------|------|-------|------|
| Bonds (%) | | | | | |
| One-Year | 0.2 | 2.3 | 0.9 | 0.6 | 1.2 |
| Five-Year | -0.6 | 4.0 | 4.8 | 4.5 | 5.3 |
| Intermediate | -3.1 | 5.3 | 3.7 | 9.4 | 6.9 |
| Long-Term | -9.5 | 7.4 | 3.5 | 29.3 | 8.9 |
| U.S. stocks (%) | | | | | |
| Large Market | 19.6 | 7.0 | 15.8 | 2.1 | 14.9 |
| Large Value | 25.1 | 8.4 | 22.1 | -3.1 | 20.2 |
| Small Market | 25.6 | 10.9 | 18.4 | -3.2 | 30.7 |
| Small Micro | 26.2 | 10.4 | 18.2 | -3.3 | 31.3 |
| Small Value | 26.4 | 11.3 | 21.7 | -7.6 | 30.9 |
| Real Estate | 6.9 | 11.4 | 17.5 | 9.0 | 28.7 |
| International stocks (%) | | | | | |
| Large Market | 8.2 | 8.4 | 17.8 | -12.3 | 9.3 |
| Large Value | 8.7 | 10.2 | 16.6 | -16.9 | 10.6 |
| Small Market | 10.7 | 12.8 | 18.9 | -15.4 | 23.9 |
| Small Value | 13.3 | 13.5 | 22.3 | -17.5 | 18.1 |
| Emerg. Mkts. | -9.1 | 17.4 | 19.2 | -17.4 | 21.8 |

All returns except "YTD" (Year to Date) are annualized.

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 |

"Past 10 yrs." returns are ended 12/31/12.

Equius Partners is an investment advisor registered with the Securities and Exchange Commission. Consider the investment objectives, risks, and charges and expenses of any mutual fund and read the prospectus carefully before investing. Indexes are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is not a guarantee of future results.

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Asset Class Turns 20

Jeff Troutner, Equius Partners

This month marks the start of the 21st year of *Asset Class* articles. First published in July 1993 as the *TAM Review*, this newsletter has provided Equius clients (and investors worldwide via the Internet) a steady stream of monthly perspectives on the U.S. financial services industry, the state of the art in financial economics research, investor behavior, and, of course, the principles of asset class investing.

When we began offering "passive" asset class strategies in 1993, only a very small percentage of long-term assets (those invested for retirement or for charitable purposes, for example) were invested in index or asset class funds, and most of those were invested by institutional investors, not individuals. In addition, there was very little science devoted to understanding and improving investor behavior.

Today, indexing and asset class investing are more popular than ever, and firms like Equius—in partnership with Dimensional Fund Advisors—are bringing the science of asset class investing and behavioral finance together for the benefit of a growing number of individual investors and retirement plans. The increased peace of mind and superior investment experience that asset class investing offers have been, and will continue to be, what drives this firm and our team of advisors.

Many clients who have stayed the course with us through all these years have taken the time to tell us how we've made a difference in their lives. Invariably, *Asset Class* has been mentioned as a steady, reliable, and valuable perspective on the challenges they face in meeting their financial goals. This is enormously gratifying to our team and to me.

Phil and I, along with the next generation at Equius, appreciate the loyalty and respect of our clients and the research assistance and asset class funds provided by Dimensional Fund Advisors, and we look forward to the opportunity to serve you, your children, your charities and others for another 20 years and beyond.



Currents of Success

Dave Butler, Dimensional Fund Advisors

Editor's Note: This article appeared recently on Dimensional's web site for investment advisors. A version of the article was also published online at RIABiz. I thought its timing and message aligned well with the 20th anniversary of *Asset Class* and I asked Dave for permission to publish it here. We're grateful for his permission and for his insights.

When I joined Dimensional in the mid-1990s, the advisors I knew were a rare breed. They were committed to changing how people think about investment advice, and their passion helped create a new industry.

The collective success of these advisors has been phenomenal, as evidenced by the significant growth in advisor assets with Dimensional. Since 1996, assets under management from advisors have grown from \$4.9 billion to \$167.9 billion.¹

In the early years, few advisors could have anticipated the professional and financial rewards that would come with their participation in the new advisory business model. Despite the progress, some things about the business have not changed. Certain principles are just as relevant today as they were 20 years ago.

I was reminded of this recently while speaking at a Dimensional conference. During my presentation, I recognized several people in the audience as children of advisors who have worked with us for many years. I met some of them when they were kids, and now they are adults working in their parents' firms.

They are polished, serious, eager, and millennial to the core. As they listened to my talk, they tapped on their iPhones and iPads, checked email, and took notes. As part of the multitasking generation, they are obviously at ease with the disruptive technology. They have a different style from their parents', but after visiting with them, I see that they are much like their leaders. For one, they get it. They grasp the essence of what makes their firms tick.

There's a certain practiced wisdom embedded in these multigenerational firms. The founders created businesses that have long-term value and capacity for new opportunities. Equally important, the kids wanted to join those businesses.

I have been asked before about the common currents of success flowing through great advisory firms. The multigenerational experience at the conference made me revisit this thought, and the principles offered below can apply to firms of all sizes, from small, independent RIAs to large enterprise firms.

Here's my list:

1. Develop a strong guiding philosophy.

Whether it is a personal philosophy on how to live your life or an investment philosophy on how to approach the financial markets, you need a view. Clients expect an advisor to provide a viewpoint that informs financial decisions and serves as a compass to handle good markets and bad.

Not just any philosophy will do. At Dimensional, our founder and chairman, David Booth, is fond of saying, "The important thing about a philosophy is that you have one you can stick with."

An advisory firm's philosophy will impact practically every part of its business, from time allocation to staffing to specifics of its service model. Consequently, forming a sensible, understandable, and defensible investment philosophy is a major step in building a great firm. A strong philosophy can be more readily internalized and articulated by employees up and down the ranks.

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2. Build your business around client needs.

Great firms are client-focused. They think hard about the client experience they want to deliver and organize their business and service model accordingly. Whatever defines that experience, advisors should devote a large part of their time and resources to creating a robust and repeatable process to consistently deliver the experience, and then build their value proposition around it.

Advisors with great businesses deliver peace of mind to their clients—and find their businesses growing. Advisors who do not must re-examine their value-add to clients and ask whether they are spending time on activities that actually add value.

In many cases, I have watched new advisors make this connection and challenge their firm to redefine its value. The questions asked should not just be theoretical, as in, “How do markets really work?” and “How can investors capture returns?” but also practical, as in, “What amount of the firm’s weekly billable hours are dedicated to beating the market?” and “How would a philosophical shift lead to more time devoted to client service and relationships?”

3. Follow your gut.

Building a great firm requires genuine intellectual curiosity and openness to new ideas, which are kept in check by that strong philosophy and client focus. Part of any advisor’s value is in staying current on the best financial thinking and seeking the best portfolio strategies for clients. At Dimensional, I have repeatedly seen a robust intellectual collaboration with advisors that has often led to better solutions for clients.

Being open to change also means watching out for those “aha” moments that can bring clarity and direction to the business. Sometimes, these come from your gut instinct; other times, they come from clients. But they don’t usually come at convenient times.

One of our longstanding advisors, the founder and principal of a multi-billion-dollar wealth management firm in the Midwest, once told

me about his pivotal “aha” moment. It came at a crucial time in his business, as he was transitioning the firm’s investment approach. He was considering moving from traditional active management, but he was not yet ready to go all-in. As a result, he proposed a reallocation to one of his best and wealthiest clients that combined a diversified, low-cost total market strategy with a stable of “best of breed” active managers. His client asked why he was sitting on the fence and said that surely one of these approaches must be better. Why not recommend that one?

The advisor was taken aback by the simple, yet profound, question. He strongly believed that he needed to transition his investment philosophy, so why hesitate? That “aha” moment led him to revamp his firm philosophy and build a business around this repeatable approach. He never looked back.

4. Simplify your business.

In a 2012 column on the Harvard Business Review Blog Network, Greg McKeown aptly described how business success often sets the stage for failure. Paraphrased here:

When we really have clarity of purpose, it leads to success. When we have success, it leads to more options and opportunities. When we have increased options and opportunities, it leads to diffused efforts. Diffused efforts undermine the very clarity that led to our success in the first place. So, success is a catalyst for failure.²

The possibility of untethered growth is something every successful organization must address at some point. There comes a moment in a prospering advisory firm when the principals feel they are losing a grip on the culture or the client experience.

The prescription is to take something that appears to be increasingly complex and strip it down to the bare minimum. One effective tactic I have seen is taking inventory of the firm’s purpose and process. The questions are simple:

Why are we in the business?

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How can we ensure that our firm has clarity of purpose?

What repeatable process can best deliver our desired client experience?

Some advisors work diligently on these questions internally. Some will bring in an outside consultant to help explore the questions and crystalize their practice management approach. In either case, a thorough review of purpose and process keeps the best advisors focused on less, which leads to more clients and more business.

5. Find your passion.

A new Cerulli Associates analysis³ states that the number of financial advisors in the US is shrinking and will continue to decline through 2016. The analysis states that overall advisor headcount has dropped by 1.3% in the past year and projects that 18,600 advisors will leave the business by 2016. These are very surprising projections, to say the least, and offer a stark contrast to the growth we have seen among advisory firms that work with Dimensional.

One explanation for the anticipated industry shrinkage is retirement—almost half of the departing advisors plan to retire by 2016. But that still leaves a net departure of 10,000 advisors over the next four years. What else could be going on in the industry?

Perhaps some advisors are leaving the business because they no longer have a passion for their work. Their loss of passion may be tied to a weak philosophy, unclear purpose, or lack of personal fulfillment. The best advisors have a clear philosophy that both employees and clients can see and feel. They are in the business for the right reasons—to help clients better their lives. And, finally, they clearly enjoy the work and find it meaningful.

Advisors who don't feel this way about their profession should reconsider their definition of investment advice. Does real advice involve accurately forecasting the market's direction or predicting which stocks or managers will outperform in the future? These activities have not proved useful in delivering a consistently great client experience that leads to a

great business—the kind of business the next generation would want to own. Advisors who believe these activities are necessary to prove their worth are not giving themselves enough credit for what they deliver to the client relationship.

In my experience, the truly great advisory firms have their own unique styles and approaches that will pass from generation to generation, but all have organized their business around a philosophy and client experience. What I see at conferences today continues to confirm this observation for me. Across audiences, I see a passion in the faces of the next generation of advisors, and when I think about their visionary parents, I understand the reason. These kids have new opportunities in the business, and they are learning principles and practices that will guide them in the future. No wonder they are so optimistic.

¹ As of June 30, 2013.

² Greg McKeown, [“The Disciplined Pursuit of Less,” Harvard Business Review Blog Network \(August 8, 2012\)](#)

³ [“Number of Advisors Shrinking,” Financial Advisor \(May 7, 2013\)](#)