

March 2015

Asset Class Returns

February 28, 2015

	YTD 2015	2014	2013	2012	Past 10 yrs.*
Bonds (%)					
One-Year	0.2	0.3	0.3	0.9	2.1
Five-Year	0.9	2.9	-0.4	4.8	3.6
Intermediate	1.1	5.2	-3.5	3.7	4.8
Long-Term	1.9	23.9	-11.4	3.3	7.5
U.S. stocks (%)					
Large Market	2.6	13.5	32.3	15.8	7.7
Large Value	1.7	10.1	40.3	22.1	8.1
Small Market	2.2	4.4	42.2	18.4	8.8
Small Micro	0.8	2.9	45.1	18.2	7.8
Small Value	0.7	3.5	42.4	21.7	7.9
Real Estate	2.9	31.1	1.4	17.5	8.1
International stocks (%)					
Large Market	6.1	-5.2	20.7	17.8	4.6
Large Value	6.4	-7.0	23.1	16.6	4.6
Small Market	5.5	-6.3	27.4	18.9	6.7
Small Value	6.8	-5.0	32.4	22.3	7.1
Emerg. Mkts.	3.7	-1.7	-3.1	19.2	8.6

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	Long-term Gov't Bond Index
U.S. Large Market	DFA US Large Company fund
U.S. Large Value	DFA US Large Cap Value fund
U.S. Small Market	DFA US Small Cap fund
U.S. Small Micro	DFA US Micro Cap fund
U.S. Small Value	DFA US 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 12/31/14.

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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First, Do No Harm

Jeff Troutner, Equius Partners

My first job fresh out of college was at a small local brokerage firm that specialized in underwriting and selling local economic development bonds. I'd passed my securities exam and was excited to begin helping clients solve their financial challenges. Unsure exactly what I was supposed to do next, I walked into the firm's owner's office and asked.

Seated in a huge, plush leather chair, he pushed back from his massive oak desk, pulled out a drawer, reached in, and literally threw his phone book at me. "Call every doctor in Fort Wayne and sell the bonds and bank stocks listed on the chalkboard," he said. He could have added "duh," but this was 1981 and he was being nice to me.

So I called doctors. All day. Then I went home, curled up in the fetal position on my bed as my wife and baby daughter tried to console me, and wondered what I'd been thinking when I decided to go into the financial services business.

I'm reminded of those days every time I (or one of our other relationship managers) sit down with a physician today. With few exceptions, we find that most of them have been *sold* financial products or "strategies" throughout their careers rather than *consulted* on a professional basis. It's like going to a doctor and being diagnosed with, say, bronchitis without even talking about symptoms. When we sit down with a doctor, we're there to consult him or her on a medical challenge and, often, our long-term health in general.

I think it's safe to say that more people still seek investment advice from stockbrokers at major banks and brokerage firms than they do from independent, fee-based, fiduciary advisors like Equius. Despite their titles (many are called "financial consultants" or "financial advisors"), stockbrokers still derive most of their compensation from sales commissions. At Equius Partners, we serve as consultants, not salesman, for our clients—physicians or otherwise—from the very start of our relationship.

Natural pushback

Most of our new relationships begin as referrals from current clients. Understandably, our clients are not inclined to offer the *details* of how we serve them, much in the same way I spare details of my or my family's treatment when I make a personal referral to a physician. But it's assumed, naturally, that "performance" is the reason.

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So for busy physicians who have come to expect a very brief and effective pitch from a master salesman, our approach can seem pretty onerous. We won't "cut to the chase" and simply discuss "our performance" over the last three years, for example. We require an in-depth discovery meeting followed by a very detailed investment planning meeting that centers on long-term results within the context of mutually agreed-upon values and goals and a basic understanding of core principles of financial economics and behavioral finance.

Evidence-Based Practice

Once we get past any reluctance physicians have to engage fully with us in a meaningful conversation, most of them quickly recognize the parallels between an evidence-based medical practice and how we approach our responsibility to clients.

An evidence-based medical practice can be defined as "the conscientious, explicit and judicious use of current best evidence in making decisions about the care of the individual patient. [It] means integrating individual clinical expertise with the best available external clinical evidence from systematic research."¹

"Clinical expertise refers to the clinician's cumulated experience, education, and clinical skills. *The patient brings to the encounter his or her own personal preferences and unique concerns, expectations, and values.* The best research evidence is usually found in clinically relevant research that has been conducted using sound methodology."²

Substitute "client" for "patient" and you begin to understand the essence of our approach to investment relationships.

In our first two meetings with any potential client, we outline the "clinical expertise" that has informed our current approach to investment relationships and helped shape the firm into what it is today. My experience as a stockbroker for eight years and then with a prominent market timer for two more has provided the Equius team with a unique perspective on what *doesn't* work for investors. As one of the pioneering firms of a modern asset class investing approach, Equius has enjoyed a long, intimate, and thorough exposure to the research and science necessary to implement the approach most effectively.

Our discovery meeting focuses specifically on the task of better understanding the "personal preferences and unique concerns, expectations, and values" of each individual involved, including spouses or partners, children, and co-trustees, among others.

During our investment planning meeting, we provide the client with an in-depth understanding of the history of the financial markets and our industry; the well-documented evidence in favor of a diversified asset class approach; and the financial science behind efficient market theory, multi-factor research, and behavioral finance.

We also follow the maxim "First, do no harm," which, in a client-centered practice, means that at times doing *nothing* is preferable to taking a risk or engaging in an activity that might cause more harm than good. We've documented all of our "do nothing" decisions in past issues of *Asset Class*. Many of these decisions have cost Equius from a marketing perspective, but they have not cost our *clients* investment returns.

A different form of a "First, do no harm" decision we make is one that clients typically aren't aware of but that has a major positive impact on relationships. For example, when I founded TAM Asset Management, a predecessor firm to Equius, in 1992, another advisor suggested that I consider a formal alliance with a much larger firm. I reviewed the firm's client communication materials and noticed that they used historical asset class returns data starting in 1975, despite the fact that the firm had access to U.S. data back to 1926 and international data back to 1970.

The firm's decision to use data starting in 1975 instead of, say, 1973—the beginning of a severe two-year slide in global markets—was purely a marketing ploy designed to inflate expected returns dramatically and thus make the firm's approach appear more attractive to new clients.

This might seem an insignificant detail to some people, but helping our clients develop *realistic* expectations—even at the risk of being too conservative—is what has helped us counsel clients more effectively than other advisors have through two additional severe declines in global financial markets (2000–2002 and 2008–2009).

We have a tremendous respect for physicians and how most conduct themselves as professionals. We recognize that so much of the investment industry *does not* follow an evidence-based approach, which is exactly why we push our physician clients to understand what we do and why. We believe they (and we) benefit greatly as a result.

¹Sackett, Rosenberg, Gray, Haynes, and Richardson, (1996) Evidence-based medicine: what it is and what it isn't, *British Medical Journal*, 312: 71–2.

²Sackett, (2002) Evidence-based Medicine: How to Practise and Teach EBM, 2nd ed. London: Churchill Livingstone (emphasis added).