

Asset Class Returns

December 31, 2015

	YTD 2015	2014	2013	2012	Past 10 yrs.*
Bonds (%)					
One-Year	0.3	0.3	0.3	0.9	1.9
Five-Year	1.5	2.9	-0.4	4.8	3.6
Intermediate	1.8	5.2	-3.5	3.7	4.8
Long-Term	-0.1	23.9	-11.4	3.3	6.7
U.S. stocks (%)					
Large Market	1.4	13.5	32.3	15.8	7.3
Large Value	-3.5	10.1	40.3	22.1	6.7
Small Market	-3.3	4.4	42.2	18.4	7.8
Small Micro	-3.6	2.9	45.1	18.2	6.8
Small Value	-7.8	3.5	42.4	21.7	6.3
Real Estate	3.2	31.1	1.4	17.5	7.2
International stocks (%)					
Large Market	-2.9	-5.2	20.7	17.8	3.0
Large Value	-6.3	-7.0	23.1	16.6	2.4
Small Market	5.9	-6.3	27.4	18.9	5.2
Small Value	4.0	-5.0	32.4	22.3	5.3
Emerg. Mkts.	-15.8	-1.7	-3.1	19.2	4.0

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 12/31/15.

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Past performance is not a guarantee of future results.

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Discipline

Jeff Troutner, Equius Partners

Knowledge. Confidence. Discipline. These three words are mounted on a wall in the Equius office. They guide us as we manage not only ourselves but also our clients' portfolios and expectations. We find ourselves once again facing declines in both global stock prices and investor confidence, so now is a good time to review what these words mean to Equius and our clients.

Each word and its meaning follows the other and circles back in a continuous loop. For example, it's hard to be *confident* in a strategy if you lack the *knowledge* of how that strategy can meet your long-term goals. And it can be very hard during difficult market cycles to adhere to an appropriate strategy (remain *disciplined*) if you're not *confident* in its underlying principles. Finally, without the *discipline* to seek new *knowledge*, it's hard to break old patterns that have led to undesirable outcomes in the past.

This article focuses on the last of these three words: discipline. According to one definition from Merriam-Webster, "discipline" is "control that is gained by requiring that rules or orders be obeyed and punishing bad behavior." That sounds pretty oppressive. We all remember being disciplined by our parents, teachers, or coaches, and there was almost always some punishment attached, so in that context, "discipline" takes on a very negative connotation.

In the context of our behavior at Equius and what we hope to instill with our clients, it's much more appropriate to attach the prefix "self-" to "discipline." Merriam-Webster defines "self-discipline" as:

The ability to control one's feelings and overcome one's weaknesses; the ability to pursue what one thinks is right despite temptations to abandon it.

That's the type of discipline we value at Equius.

Where It Starts

My personal history in this business includes examples of fighting temptations in order to do what I felt was right. The first was to reject the product sales approach and culture at Shearson Lehman Brothers by focusing exclusively on recommending independent, fee-based advisors to my clients and developing a quarterly performance process that provided clear accountability for my recommendations and emphasized a total portfolio approach. This approach, as expected,

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worked well for my clients from the start but took several years to pay off for me (the temptation of commissions on securities trades and 5% to 8% sales loads on mutual funds, annuities, and limited partnerships is why the old culture still persists).

The second was when I rejected active management completely in 1992 by founding TAM Asset Management to offer a pure asset class approach to long-term investors. Both were *initiated* by a desire to overcome weaknesses in myself and my industry and pursue what I thought was right for clients, and both were *inspired* by the examples and guidance of innovators who came before me. At Equius, our team hopes to provide that same kind of inspiration and guidance to our clients and a new generation of investors.

Where It Leads

As proud as I am of the self-discipline that has forged our firm's culture and shaped the client experience we offer at Equius, I don't hold my evolution as an investment advisor in nearly the same regard as I do our clients' acceptance of an asset class investing philosophy. After all, unlike most of our clients, I've been immersed in the challenges of investing since the day I graduated from college more than 30 years ago. The values instilled by my parents and reinforced by my early years working for people in my neighborhood (delivering papers, raking leaves, shoveling snow), taught me it is noble—and ultimately mutually profitable—to create real value that others desire, recognize, and appreciate.

But not everyone believes that. Most of our clients were punished—often multiple times—by active management in ways they didn't fully understand. They had to take a leap of faith and exercise self-discipline to abandon active management and replace it with a very attractive alternative: asset class investing. This type of self-discipline is truly unique among investors, whether retail or institutional, amateur or professional.

They made the decision to invest their *intellectual capital* before they invested their financial capital the same old way again. Many clients hired us after reading *Asset Class* articles and posts on indexing forums online. They were actively seeking *knowledge* on their own. The Equius team has enhanced that knowledge and put experience and structure (and, yes, discipline) to it in a way that meets the very reasonable expectations we've set for ourselves and our clients.

That knowledge (and the confidence in the underlying principles that grew gradually) was severely tested during multiple market cycles since

1993 and it took a great deal of self-discipline to survive those cycles with long-term plans intact.

The Results

For example, while most advisors and investors allowed themselves to be tempted by the promise of extraordinary returns from technology stocks and other large-growth company stocks in 1995-99, we relied on the knowledge that stock markets are multidimensional, are mean-reverting, and eventually reward long-term investors for accepting small-cap and value stock risk. We rejected overconcentration, overtrading, and overoptimism by managing more balanced, structured, and long-term-oriented portfolios. And when the dot-com "bubble" burst, we and our clients were rewarded for our discipline.

Self-discipline, driven by knowledge and confidence, made it much easier for us and our clients to reject the next phase in Wall Street's sordid history: the aggressive move away from stocks and short-term, high-quality bonds after the dot-com crash. We weren't surprised when U.S. and foreign stock markets soared from April 2003 through October 2007. The S&P 500 companies appreciated by 16.0% per year over that period U.S. and international large- and small-value stocks did markedly better.

Yes, shortly thereafter we felt the full brunt of the global financial crisis. From November 2007 to February 2009, small-cap and value stocks performed worse than the overall market, but Equius didn't recommend changes in client portfolio allocations in reaction to market declines or client emotions. In fact, throughout this time we continued to rebalance portfolios, buying stocks as they declined.

When the market reversed course in March 2009, our clients prospered while so many other investors lamented their permanent loss of capital, caused by forays into residential and commercial real estate, hedge funds, commodities, mortgage-backed securities, derivatives, options, private limited partnerships, market-timing attempts, and other "alternative" investments and strategies.

Is history repeating itself now? Maybe. And as always, we'll maintain our focus based on 87 years of market history and the best financial economics research, with a goal of confidently capturing—through stocks and short-term, high-quality bonds—what the global economic system provides to long-term investors.

We're confident our clients will remain with us in this worthwhile pursuit as long as we—and they—remain disciplined.