

EQUIUS ASSET CLASSSM

Modern asset class investing principles, research, and perspectives for long-term investors



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Validation and Resolve

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We are entering 2018 on solid ground as asset class investors. The financial markets are doing well, the economy is growing faster, and investor preferences are changing for the better. Equius remains at the forefront of positive change in this industry as we grow and build for the future and continually strive to improve our clients' investing experience. Here's a brief summary of where we stand today.

The Markets

Since March 2009, the S&P 500 index has produced a 338% total return, or 18.2% annually through the end of last year. Large and small value stocks—core components of our long-term strategies—performed even better. The table below shows the annual returns for a core set of asset class funds (as proxies for asset class returns) and market indexes since 1995 and over two sub-periods.

Our team is proud of the fact that during and after the steep market declines of 2008 and early 2009, we maintained our focus on core principles, consistently rebalanced portfolios according to our discipline, and remained fully invested in the markets. We know many advisors and investors who did not—resulting in a tragic loss of

Fund/Index	Since 1/1995	Since 3/2009	2017
CPI (through 11/2017)	2.2%	1.7%	2.2%
DFA Five-Year Global FI Fund (DFGBX)	5.0%	3.0%	2.0%
S&P 500 Index	10.1%	18.2%	21.8%
DFA US Large Value Fund (DFLVX)	11.2%	20.4%	19.0%
DFA US Small Value Fund (DFSVX)	12.3%	19.8%	7.2%
MSCI EAFE Index	5.8%	12.2%	25.6%
DFA Int'l Value Fund (DFIVX)	6.9%	12.8%	26.1%
DFA Int'l Small Value Fund (DISVX)	8.3%	15.9%	28.0%
DFA Emerging Mkts. Fund (DFEMX)	7.5%	12.9%	36.6%

These returns are for illustration purposes only and are presented as proxies for asset class performance. See further disclosures on next page.

opportunity presented by one of the strongest stock markets in history.

We've continued to enjoy a small-cap and value return premium since March 2009 while also witnessing a resurgence in the international markets (particularly this past year). U.S. small value lagged behind large growth in 2017, offering a rebalancing opportunity not unlike what we experienced in the late 1990s.

As we all know, the market can't go up forever, especially at a rate of 18% annually. So we should expect a "correction" in asset class returns at some point and be prepared for more challenging periods in the market. Our broad diversification and rebalancing discipline will help power portfolios through these cycles, while hopefully delivering the long-term expected returns we've experienced in the past. For our clients who take regular distributions from their portfolios, our short-term, high-quality bond investments will provide much, if not all, of the needed liquidity during turbulent stock cycles.

The Economy

The good news about the U.S. economy continues. Businesses are hiring more people, particularly in the manufacturing sector, and GDP growth has exceeded 3% annualized over the past two quarters.

There are reasons to believe the recent tax cuts for U.S. companies and individuals will boost the economy even further. Many companies will reinvest a portion of any tax savings back into their businesses, while others will buy back shares and increase dividends—all of which have the potential to benefit Equius clients over time.

As Equius clients know, the current optimism around corporate earnings and the economy are already built into stock prices, so expectations of future stock market gains should consider this basic truth of market efficiency.

Our Investment Strategy

It's very gratifying to see how strong the trend away from active management and toward indexing and asset class investing has become over the past few

years. Firms like Equius, Dimensional, and Vanguard are obviously benefitting from this massive money shift, but the most important beneficiaries are the folks investing for their retirement, their kids, their charities, and other personal aspirations. Not only will the average net return improve for these investors, but also the impact of common disasters associated with more speculative active strategies will be reduced by the degree to which they (or their advisors) avoid them.

We remain somewhat skeptical of this trend toward indexing, however. The flow of investment dollars into the strategy (in contrast to *asset class investing* as we implement it) is no doubt influenced by the performance of the Facebooks, Googles, Apples, and other large-growth companies that dominate the S&P 500. When the bloom comes off this group, as it surely will at some point, billions are likely to flow out of index funds and back into cash, bonds, and/or active managers who were lucky enough to avoid over-concentration in these behemoths.

Active management has an incredibly strong emotional allure, driven mostly by hope and hype that some investors simply can't resist. As long as we have great salespeople who ignore the basic realities of modern markets and promote the discredited marketing myths of active management, we'll have investors making poor choices for their serious investment assets.

Equius Partners

Equius now manages over \$1 billion for a wide range of clients across the country. This is a major milestone for us and those we serve. Market growth, a sharp focus on foundational investment and client service principles, investment discipline, the hard work and professionalism of our team, and the intellectual stimulation and quality tools provided by firms like Dimensional Fund Advisors and top-tier academics have all contributed to this growth.

We are especially grateful to clients who have taken the time with us to reflect more deeply on their personal goals and aspirations and have truly partnered with us to achieve a common goal. Their investment of *intellectual capital* is why the investment of their *financial capital* has been achieved with much greater consistency and overall success than what we observe with so many other investors and advisors.

We also appreciate and want to recognize ProFed Financial Advisors for all their efforts since 1993 in introducing us to schoolteachers and

administrators, small-business owners, and professionals who are too often ignored or abused by more traditional wealth managers and financial planners. Equius rejects the advice of business consultants who urge us to establish high asset minimums for client relationships, a strategy that relegates the less wealthy to commission-based stockbrokers and insurance agents. While we enjoy and take very seriously our responsibility to assist our high-net-worth clients in preserving and growing their wealth, we recognize and appreciate the impact we can have on clients with less wealth.

Equius continues to enjoy a reputation among our peers for a relentless focus on core investment principles and our efforts to improve the client experience through more effective communication, portfolio management, planning, and overall engagement. We've also worked very hard to build a strong business that will continue to offer the same, or better, quality of service for succeeding generations. We're working toward expanding ownership among more of our team, hiring outstanding members of the next generation in operations and client service, and are committed to reaching out more methodically to the next generations of our current and future clients.

My Sabbatical and Future Plans

I am so thankful that I was able to take a year off from my responsibilities at Equius and come back rejuvenated and proud of the progress achieved by the Equius team while I was away.

Besides enjoying even more time with our eight grandchildren, which is priceless, Kathy and I were able to take over two months alone traveling across the U.S. and back. We visited friends and family along the way, enjoyed spectacular vistas and experiences in state and national parks, and simply relaxed with minimal interruption away from the day-to-day stresses of our normal life. God willing, we'll have been married for 40 years this May, and we truly consider ourselves blessed.

Phil and I remain active in our roles at Equius. It's important to us that everyone on the Equius team fully appreciates the history, passion, science, and investment discipline that are the core of Equius and our clients' success. We continue to encourage a healthy level of skepticism and intellectual curiosity as our industry and the science of investing continue to modernize and improve.

Good luck and good health to you and yours in this new year.

Equius Partners is a Registered Investment Advisor. Please 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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