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PARTNERS
Adding Balance to Wealth℠

ASSET CLASS℠

An update of performance, trends, research, & topics for long-term investors

April 2009

Asset Class Returns

March 31, 2009 (YTD)

	2006	2007	2008	Last 10 yrs.*	YTD 2009
Bonds (%)					
One-year	4.8	5.2	4.0	3.9	0.4
Five-Year	3.9	5.2	4.0	4.5	0.1
Intermediate	3.6	9.5	12.9	6.7	-1.4
Long-term	1.7	9.2	22.5	7.8	-4.7
U.S. stocks (%)					
Large Market	15.7	5.4	-37.0	-3.1	-11.0
Large Value	20.2	-2.8	-40.8	0.0	-16.8
Small Market	16.6	-3.1	-36.0	4.2	-13.8
Small Micro	16.2	-5.2	-36.7	5.5	-16.1
Small Value	21.5	-10.8	-36.8	6.2	-17.4
Real Estate	35.3	-18.7	-37.4	3.7	-32.7
International stocks (%)					
Large Market	24.9	12.5	-41.4	-0.4	-14.0
Large Value	34.1	10.2	-46.3	2.8	-16.2
Small Market	24.9	5.6	-43.9	5.8	-10.8
Small Value	28.4	3.0	-41.7	7.7	-13.2
Emerg. Mkts.	29.2	36.0	-49.2	8.6	-1.2

Descriptions of Indexes

Short-term 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 US Large Co. fund
U.S. Large Value	DFA Large Cap Value fund
U.S. Small Micro	DFA US Micro Cap fund
U.S. Small Market	DFA US Small 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

"Last 10 yrs." returns are ended 12/31/08.

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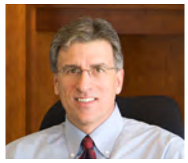


Off Balance, Indeed

Jeff Troutner, Equius Partners

One of the things I have valued and respected about Dimensional Fund Advisors (DFA) has been their steadfast commitment to asset class investing principles—principles based not on world-class research alone, but also on the wisdom and experience of its founders and employees. While they have advanced the art of "indexing" through better-structured and better-managed funds, they have avoided compromising their business or ethical beliefs by introducing actively-managed funds or advocating market timing in any form. Unfortunately, the same cannot be said of far too many advisors whom DFA has approved to use their funds. Just as all index funds are not created equal, advisors who use DFA funds are not created equal.

We (and 2 million subscribers) were reminded of this again in the *Wall Street Journal's* Quarterly Analysis of April 6 ("Off Balance"). Here we are introduced to an advisory firm that uses the DFA funds, yet contradicts their own stated investment principles by essentially ignoring all the research behind these principles. In other words, they make the same common mistakes individual investors make *and they charge a fee to do so!*

Most investors reading "Off Balance" will fail to recognize the contradictions and flaws in the profiled advisor's strategies because they sound so much like everything else the *Journal* publishes on investing. It's not called the *Wall Street Journal* for nothing, right? The *Journal* is Wall Street's greatest marketing tool. And what these advisors are—at their core—are *marketers*. Being an "approved advisor" of DFA's is simply another marketing advantage for them. Since it's sometimes easier to learn from the mistakes of others, I believe the contrast between our principles and theirs is useful.

Active management doesn't work...uh...well...maybe...

Let's start with a statement from the firm's co-managing principal found in the middle of the article:

"We're really not convinced that active management adds value...we know it adds cost."

How well do they adhere to this principle? One of the first funds he describes in their portfolios is an actively-managed one that invests in "dividend-paying stocks." But rather than leave bad-enough alone, he further compromises his asset class principles by giving the *reason*:

"Higher-dividend-paying stocks tend to hold up better in severe downturns and recessions."

It's hard to decipher whether this advisor believes we are headed *into* a severe downturn or recession at this stage in the economic cycle or if he intends to sell the fund once we're out. In any case, he's market timing. Otherwise he wouldn't qualify his decision with anything other than "it's a good long-term investment because we think this one active manager is the one who will add value over and above those added costs!"

Continued on page 2

This co-managing principal goes on to describe an allocation to another actively-managed fund "which aims to provide exposure to the broad stock market, but with lower volatility."

Ahh...the elusive low risk/high return creature. I've been searching for that one my whole career and here it is for all two million of us to discover together! But wait, this one uses "complex financial instruments like options" to work its magic. Uh oh.

Betting on sectors...

Slogging further down the active-management path, we're treated to investments in a dinosaur I thought went extinct in 2000—the technosaurus! Yes, this advisor has a special allocation to technology stocks through a NASDAQ index fund and a technology sector ETF (one's never enough). For those interested in seeing how that worked out the last time, see our "Tortoise & Hare" piece posted on our website[1].

Although relatively small at 3% of portfolios, their allocation to a commodity fund is also contrary to asset class investing principles. Commodities do not have an expected return, since they don't earn anything and they don't pay dividends or interest.

In *backtested* commodity index simulations from 1970-1990, Goldman Sachs produced returns of +16.4% per year: a full 5.1% better than the S&P 500 and 7.8% higher than 3-month Treasury Bills. But once they began computing the index *forward* based on their new methodology, an entirely different picture appears (surprise!). From 1991-2008, annual returns for the commodity index were 5.2% below the return of stocks and 1.7% below the return of its collateral—3 month Treasury Bills! Based on these "live" numbers, we can't reject the assumption that commodities themselves have *negative* expected returns.

Some will suggest that commodity funds are a good hedge against inflation. But are they? Since 1991 the Goldman Sachs Commodity Index (GSCI) has outpaced the CPI by only 0.2% annually with over 30 times the annual volatility!

I could quibble with the wisdom of a separate concentrated allocation to the real estate sector (considered by some to be a separate asset class), as I've done in previous *Asset Class* articles. Instead I'll merely point out that they've chosen to use both the Vanguard REIT index fund and DFA's REIT fund, despite the almost identical holdings of the funds and almost identical performance (DFA has outperformed by about 0.3% since inception). Is this wise, research-based hedging or marketing-driven? I have my guess.

When the going gets tough...

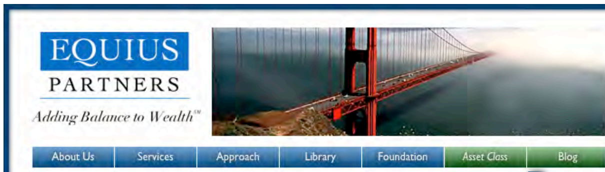
When the going gets tough, many investors and too many advisors give up. Rebalancing, the strategy of buying low and selling high by bringing drifted allocations back to their targets, is a critically important discipline. It is the opposite of the fear and greed-induced emotional investing that so many investors find hard to resist. It's common sense that rebalancing's greatest positive impact occurs near market tops (sell high) and market bottoms (buy low). But investors get nervous at times like these. They either don't want to miss the boat (2000) or are fearful of sinking with it (recent times). So that's why you hire an experienced, principled advisor, right?

Well, this advisory firm decided that because "clients were becoming very nervous" they would hold off on rebalancing...and instead engage in active market timing. As another of the firm's principals stated, "[we] would first have to see signs of stabilization in the housing market and the financial sector, as well as more clarity about where company earnings are going" before they decide to adhere to their rebalancing "discipline" once again. One can only imagine how those "signs" and "clarity" worked out for them prior to this meltdown. Did they rebalance by selling stocks then? And won't prices have already adjusted upward by the time this stabilization and clarity occurs? Oh, never mind.

On one hand, I'm troubled by articles like these because they show my industry for what it is: one dominated by throw-a-strategy-against-a-wall-and-hope-it-sticks advisors who glom on to anything that seems to appeal to investors at the moment. The articles also confirm what I complain to DFA about all the time: they're allowing wolves into the hen house (advisors who proclaim a belief in passive asset class strategies for marketing reasons only).

On the other hand, these articles confirm to me and the rest of the Equius team what sets us apart and what I believe we're doing right. In the midst of political and economic madness, at least that's something positive to glom on to.

[1] www.equiuspartners.com/pdf/tortoiseandhare.pdf



Please visit our **Blog** at www.equiuspartners.com. This area is intended to provide brief and timely perspectives on markets and recent events, as well as links to independent articles we believe are relevant to our investment approach.

We also recently posted videos from DFA titled, "What Should Investors Do Now?" A link is on the left side of the Home page as well as the **Library** page. This series of videos offers interesting perspectives on many of the issues investors are concerned about today.

Clarion Call

Eugene F. Fama, Jr., Dimensional Fund Advisors

Gene Fama, Jr., Vice President, Dimensional Fund Advisors is the son of Eugene Fama, Sr., The Robert R. McCormick Distinguished Service Professor of Finance at the University of Chicago Booth School of Business. This article was addressed to advisors who are approved by DFA to use their funds.

When returns are poor (and sometimes even when they're good), investors wonder if things have changed. Is this time different? Does a buy-and-hold strategy still make sense?

Advisors offer reassurance: Nothing has changed. This is just how markets work. Stay the course.

True or not, such counsel can seem reflexive—not just because the severity of the slump, but because things really might be different this time. Financial downturns need not be lesser or greater versions of the same problem, and our clients intuitively get this.

They know that when the operating rules are consistent, all we have to worry about is market risk. The normal ebb and flow of prices is a part of life and thus less harrowing. But changing the rules that govern markets introduces a malicious strain of uncertainty. Will capitalism be allowed to flourish? Is the new government waging war on private enterprise? Will inflation and interest rates rise in response to deficit spending? Will there be another Great Depression?

We can't know. But even if we did know, would we change our approach? The doom predictions don't come with an escape hatch for investors. The fundamental principles of modern finance still offer our best guidance, even if the worst comes to pass.

Markets Are Resilient

Whether you believe, as I do (more on this in a future column), that the current mess was caused by the state meddling in free markets or whether you think it was caused by free-market "greed," what matters now is that you re-commit to a belief in the power of markets. Too often investors see markets as a delicate flower that needs perfect conditions (and even a master gardener) to thrive. But markets are better seen as a foundational and permanent element of human interaction—like the water that gives birth to and feeds the flowers. Our job as advisors is to structure the best plumbing, so our capital can find its many and varied uses. And find them it shall.

Markets endure even in the darkest of times. Hurdles are thrown their way, and enterprise circumvents them. Political risk is no different; it's still "priced" risk. Threats to property and liberty increase the chance that investors will not be rewarded for risking capital. This, in turn, increases the cost that companies must pay to obtain capital, which increases expected returns to a point where they spur the reticent to invest.[1]

Don't Predict—Prepare

In recent months, capital has seemed to be on strike. Bank failures, forced selling, and changing government policy have sent investors to the sidelines, waiting for better tidings.

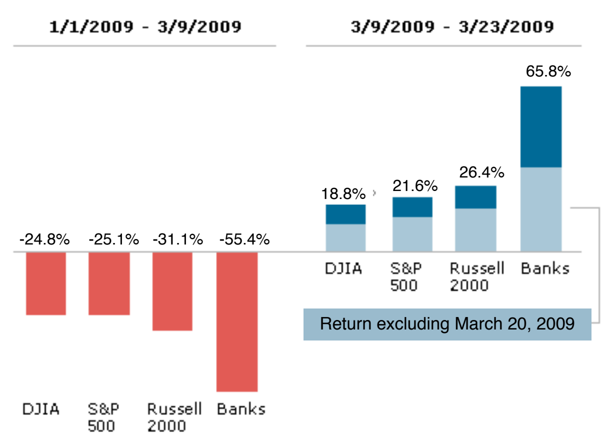
Through the resulting meltdown, cash has been a refuge. Don't expect this to persist. The feds are deficit-spending beyond the pale—funding rampant government expansion by borrowing and printing money. In the event of inflation, the real loss of value in a cash account is no different from a price drop in a stock portfolio—to say nothing of the opportunity cost to investors of missing big rallies.

When all is said and done, clients hire an advisor to invest—not to keep their money in a checking account. Amidst volatility, attempting to time a market reentry is even more risky and counterproductive than usual.

How many investors stockpiling cash realize that the equity market is up 22% so far this month (as of this writing on March 23, as seen in the exhibit below)? Daily price movements are like white noise that not only make timing treacherous but confuse our ability to perceive whether we're in an "up" market or a "down" market—even while we're in it.

We can't declare an extended bull market from one month's return. That would be worse than imprudent—which is exactly the point. If you can't tell which part of the cycle you're already in, how can you predict future cycles, or time a turnaround to

Exhibit 1
US Market and Bank Industry Returns



Dow Jones data provided by Dow Jones Indexes. The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995-2009, all rights reserved. Banks are the KBW Bank Index, provided by Keefe, Bruyette & Woods, Inc. Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

Continued on page 4

the day? The above exhibit shows how much of the 22% (26% for small cap[2]) you would have missed had you been out just a single day: March 20, 2009. The real job of the investor isn't to predict bull and bear markets, but to be invested on days like this.

Let It Flow

Capital is the fuel that powers our economy. Money is human energy that must flow to its efficient uses. An economic axiom holds that total savings equal total investments: even money stuck in the bank doesn't lay fallow. The banks (and other entities downstream) invest it. In this way, big reserves and small droplets alike are drawn inexorably to the sea of wealth creation.

When prices fall and expected return increases, cash in a savings account increasingly risks foregoing the greater expected return of stocks and getting whipsawed by inflation. These unstoppable incentives pull capital back into action. We're in a historically rare environment where accounting valuations exceed prices for multitudes of venerable companies. Hedge funds and debtors are forced to sell at low prices. If you don't have to, why voluntarily join them?

As a general condition, risk taking is compensated. If you think stock returns are low going forward, make a case that stocks are less risky now than they were before all this tumult. I'm listening.

Take Charge

Like other forces of nature, markets are unfathomable to central planners, the media, or any individual. They adapt to the worst that we throw at them. Consider that Red China—a country nobody would call a bastion of freedom—generated an annualized stock market return of 47.4% for the five years ending December 2007.[3] The less free the markets become in one country, the greater the incentive for other countries to loosen regulations and increase their competitive advantage. (The moral: global diversification!)

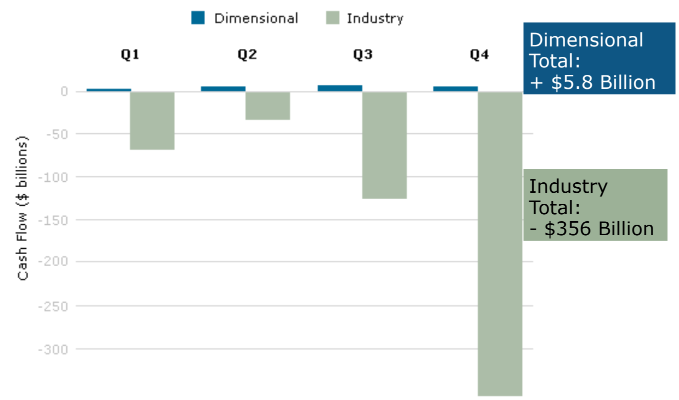
As uncertain as advisors and other plan sponsors feel lately, you have to think it's as bad or worse for end investors and plan beneficiaries. Now is the time for professionals to demonstrate the strength of their convictions. The true test of leadership is during hard times. A belief that capital markets overcome challenges, and an adherence to the principle of modern finance—cost of capital, risk and return, and global diversification—are more crucial now than ever. Our advisors know this: The chart below (Exhibit 2) demonstrates how stable DFA's cash flows have been through the period compared to an industry that seems only to react, flapping in the breeze of uncertainty.

At the risk of hearing a soft strain of the Patton theme in the background, I propose that Adam Smith, Thomas Jefferson, and the founders of our economic system were on to something. Liberty, the pursuit of happiness, and enterprise are man's birthright—wired into our DNA. Markets harness and advance these noble impulses better than any other mechanism of human interaction. Political or industry setbacks only induce waiting capital to eventually roar back into action. As an advisor in this philosophy, pride yourself on standing at the front lines of the charge.

Our philosophy makes us all 1776 investors, ready to overcome the forces that brought us to this point, and to assert our capital boldly—with an abiding belief in free markets and our destiny as investors.

Exhibit 2

Dimensional vs. Industry Cash Flows 2008



In US dollars. Industry data provided by TrimTabs and the Investment Company Institute.

Date of first use: April 7, 2009. Prospectuses are available by calling Dimensional Fund Advisors collect at (310) 395-8005; on the internet at www.dimensional.com; or, by mail, DFA Securities LLC, c/o Dimensional Fund Advisors, 1299 Ocean Avenue, Santa Monica, CA 90401.

[1]Expected return is the percentage increase in value a person may anticipate from an investment based on the level of risk associated with the investment, calculated as the mean value of the probability distribution of possible returns.

[2]Securities of small companies are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price.

[3]Source: MSCI China Index (net dividends) copyright MSCI 2009, all rights reserved.

Performance data shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month end, access our website at https://my.dimensional.com/fundcenter/performance/. Average annual total returns include reinvestment of dividends and capital gains.

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