EQUIUS PARTNERS
Adding Balance to Wealth℠

ASSET CLASS℠

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

Asset Class Returns

January 31, 2012 (YTD)

	YTD 2012	Last 10 yrs.*	2011	2010	2009
Bonds (%)					
One-year	0.3	2.6	0.6	1.2	1.9
Five-year	1.0	4.5	4.5	5.3	4.2
Intermediate	0.7	6.4	9.4	6.9	-0.7
Long-term	0.1	8.7	29.3	8.9	-12.1
U.S. stocks (%)					
Large Market	4.4	2.8	2.1	14.9	26.5
Large Value	5.0	4.6	-3.1	20.2	30.2
Small Market	6.7	6.7	-3.2	30.7	36.3
Small Micro	7.0	7.1	-3.3	31.3	28.1
Small Value	7.4	8.1	-7.6	30.9	33.6
Real Estate	6.3	10.1	9.0	28.7	28.2
International stocks (%)					
Large Market	6.0	4.9	-12.3	9.3	30.6
Large Value	6.7	7.6	-16.9	10.6	39.5
Small Market	8.5	11.0	-15.4	23.9	42.0
Small Value	10.0	11.9	-17.5	18.1	39.5
Emerg. Mkts.	10.7	14.2	-17.4	21.8	71.8

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

"Last 10 yrs." returns are ended 12/31/11.

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.**

Equius Partners, Inc.
3 Hamilton Landing, Suite 130
Novato, CA 94949
Phone: 415-382-2500

February 2012

Beware the Wall Street Elites

Jeff Troutner, Equius Partners

elite: a group of people considered (by others or themselves) to be the best in a particular society or category, esp. because of their power, talent, or wealth.

None of us is as smart as all of us. —Ken Blanchard

The U.S. stock market is the best example of how a free market works and is proof of the "wisdom of crowds." Millions of free people engage in free exchange to set prices for thousands of stocks on a daily basis. It's messy, it's unpredictable (at least in the short run), and it's often frustrating. But the outcome is what you should expect from such an unrestrained and extremely diverse expression of opinion, analysis, and expectations: the crowd knows best. The market wins. Stock pickers and market timers fail, consistently.

The elites on Wall Street and in the media refuse to acknowledge these simple truths, and a legion of followers, including securities analysts, stock brokers, fund managers, investment consultants, and most financial advisors do their bidding. I've referred to this group collectively in past articles as "old-school Wall Street," and it's an apt description. These people (young and old) simply refuse to accept that the world of *investing* has changed to a world of *speculation*. It doesn't have to be that way.

The truth is, Wall Street elites have sown the seeds of their own impotence. The financial industry has grown so large that in this modern age of high-speed computers and the Internet, they've effectively canceled each other out. They are no longer elites (except in their own minds) by any objective *performance* measure. They are simply part of "the market"—just like that annoying, uneducated relative who corners you at reunions and brags about his most recent day-trading winner—and they *hate* it.

But misery loves company, right? So with the help of political, academic, and media elites who gain power and profit by hanging on to the old-schoolers, they give hardworking Americans their middle finger while scooping in billions of their dollars for nothing in return. In fact, "nothing in return" is a serious understatement. What they give us are bubbles, financial instruments of mass destruction, great recessions, Bernie Madoffs and Jon Corzines, taxpayer bailouts, massive federal deficits and debt, and political corruption. Just like the during 1920s and '30s, speculation has come to dominate everything on Wall Street. It's all they have left.

The market is so efficient and so difficult to beat over time that the only way the Wall Street elites can stand out is to take extraordinary risks with other people's money and *hope* they're right. They make huge bets on concentrated

Continued on page 2

portfolios, often with leverage (borrowing) of 10:1 or more, or they make big bets on short-term movements in the financial markets, industry sectors, currencies, interest rates, gold, or other commodities, using ETFs or other means.

So what are you going to do, Mr. Free Market?

What's really ironic about all this is that a large swath of the American population that fundamentally believes in free markets and hates political and media elites telling them what to do willingly allows the old-school Wall Street elites to manage their money. On average, the elites underperform the market by 2% annually. This loss is compounded (most significantly at market highs and lows) by investors who make emotional decisions—encouraged and facilitated by Wall Street and the media—that destroy another 3%-6% annually.[1]

So, you live-free-or-die types—do you believe in free markets or not? If you do, quit turning off your brain and handing it to the Wall Street and media elites to program to *their* advantage. Be an independent and critical thinker, invest some of your own intellectual capital into understanding how risk and return and markets really work, be disciplined, and keep most of what the markets offer for yourself. Quit supporting the Wall Street elites by hiring them or engaging in expensive, low-odds, speculative investment strategies that profit them in any way. Instead, embrace a market-based asset class investing approach to preserve and grow your and your family's wealth. In other words, be more consistent in your ideology.

So what are you going to do, Ms. Anti-Market?

Also ironic is the fact that another large segment of the American population believes more in the wisdom of elites than the wisdom of crowds, yet absolutely *hates* Wall Street! This poses a quandary: to invest, these folks must either embrace the Wall Street elites by engaging in the speculative, wealth-destroying active strategies Wall Street aggressively promotes and profits so handsomely from or they must instead embrace the principles of indexing or asset class investing and acknowledge that, at least in this case, markets work.

The Equius investment style should please both

In the words of DFA co-founder, Rex Sinquefield:[2]

> *...asset class investing is consistent with what we know about how free and fair markets function. Active management is not. Asset class investing is supported by the results of scores of empirical studies of 50 years of professionally managed portfolios. Active management is not. Finally, asset class investing allows reliable planning and implementation of portfolio strategies. It is demonstrably successful and the most prudent way to invest a client's money.*

And from Christopher Whalen, in his article "In defense of free market fundamentalism":[3]

> *Large corporations tend to avoid risk and over time try to control markets and even governments to protect their interests. While the vast majority of business people, who run smaller enterprises, are honest and support a civil society (and generate the majority of jobs), the captains of the largest corporations often take actions antithetical to a democratic society and their shareholders.*

Despite protestations to the contrary, executives of large corporations are not generally champions of free markets. Of course, neither are most other elites, whether in politics, unions, academia, or the media. Once you're big and powerful enough, you do all you can to protect and grow *your* turf. This locks in profits, power, and market share while stifling ideas, innovation, jobs growth, and progress in general. Recent examples include Microsoft, Goldman Sachs, the too-big-to-fail banks, Freddie Mac and Fannie Mae, the big auto manufacturers, oil companies, the U.S. Postal Service, and public education. Google and Facebook are next, if they can pull it off.

A problem with an *indexed* strategy as opposed to an *asset class* strategy in this regard is that the former almost always overweights the S&P 500 or a total stock market index on the U.S. stock side and the MSCI EAFE index on the foreign stock side of portfolios. These indexes concentrate holdings in the very largest companies in the world. These are the companies with the greatest political influence, the most exorbitant executive salaries, and the greatest tendency not to employ Americans. They are also the most likely to demand subsidies and bailouts, the least likely to innovative, and the first to eliminate competition any way they can.

In contrast, most Equius all-stock portfolios cap the S&P 500 index at 21% of the total allocation (if they own any percentage at all), with no allocation to MSCI EAFE. Portfolios are more heavily tilted toward thousands of smaller U.S. and foreign companies selling for lower prices relative to book value (value stocks), using passively managed asset class funds. These companies are more motivated to innovate, increase market share, employ more people, pay dividends, improve management, and generally increase shareholder value. The stocks of these companies in the aggregate also tend to outperform the market over time—which is what the elites promise but seldom deliver.

Equius Partners' market-based asset class approach offers the best opportunity to profit from the growth of these kinds of companies and the global economies in general, while contributing as little as possible to the growth and profitability of the Wall Street elites.

---

1 http://www.dalbar.com/Portals/dalbar/cache/News/PressReleases/pressrelease20100331.pdf

2 www.dfaus.com/2009/05/active-vs-passive-management.html

3 *Reuters*, June 10, 2011