EQUIUS PARTNERS

Adding Balance to Wealth℠

ASSET CLASS℠

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

December 2011

Asset Class Returns

November 30, 2011 (YTD)

	YTD 2011	Last 10 yrs.*	2010	2009	2008
Bonds (%)					
One-year	0.6	3.1	1.2	1.9	4.0
Five-year	3.7	4.6	5.3	4.2	4.0
Intermediate	8.2	6.3	6.9	-0.7	12.9
Long-term	25.4	7.1	8.9	-12.1	22.5
U.S. stocks (%)					
Large Market	0.9	1.3	14.9	26.5	-37.0
Large Value	-3.9	5.3	20.2	30.2	-40.8
Small Market	-3.7	8.3	30.7	36.3	-36.0
Small Micro	-4.1	9.6	31.3	28.1	-36.7
Small Value	-8.5	11.1	30.9	33.6	-36.8
Real Estate	4.2	10.5	28.7	28.2	-37.4
International stocks (%)					
Large Market	-10.2	3.9	9.3	30.6	-41.4
Large Value	-14.6	7.8	10.6	39.5	-46.3
Small Market	-12.8	11.7	23.9	42.0	-43.9
Small Value	-15.2	13.5	18.1	39.5	-41.7
Emerg. Mkts.	-14.9	15.6	21.8	71.8	-49.2

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 12/31/10.

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Naughty and Nice for 2012

Jeff Troutner, Equius Partners

It's common at some point during tough economic times and volatile and declining markets for investment advisors to list all the wars, famines, outbreaks of disease, social unrest, and environmental disasters that have plagued mankind in the past and to remind clients that we should all be thankful for the better conditions we live in today. The message, essentially that "this too shall pass," is a good one. In this country we tend to learn very quickly from our mistakes and move on to even greater prosperity. As disciplined, long-term investors we reap greater rewards from this attitude than investors who cycle their emotions *and* their investment portfolios between the constantly shifting extremes of pessimism and optimism.

But by simply listing past challenges and not current ones, we may appear insensitive to what we're all facing today. Usually this is due to our strong belief (based on solid evidence) that much of what we worry about is simply "noise" that has little effect on long-term market returns. Other times we're trying to avoid topics with clear political overtones. Sadly, however, almost all our current economic challenges are the result of misguided and inappropriate government meddling in the private economy that may have a long-term negative impact on our economic growth and future stock market returns. I'll outline briefly a few of these challenges and follow with good news on past index returns, our view on future returns, and developments at Equius.

Naughty: Class Warfare

It seems destructive to the American spirit to have the president of the United States engage in class warfare rhetoric in any way or at any time. When it does occur (and leads a longtime U.S. senator to proclaim that "millionaire job creators are like unicorns—they don't exist"), I think we have a big problem. Some will dismiss this as short-term political strategy timed for next year's election. But what is one to make of the Occupy Wall Street movement? I'm not impressed with that crowd's lack of coherent messaging, financial or economic education, or overall maturity, but I don't think most are protesting just to see President Obama elected again. In fact, many appear openly hostile to the administration. Rather, I think too many of them actually believe that "rich" people are evil and do long-term harm to our country.

We can quibble about tax rates at various income levels, but I challenge anyone with a fair mind to convince me that this class warfare approach doesn't very quickly degenerate into demonization of many people who simply don't deserve it. Our clients (most of whom meet the bombastic descriptions used by the politicians to engage in this madness) provide access to the capital businesses need to grow and prosper—particularly small and distressed firms. And few of

Continued on page 2

these companies would exist in the first place to employ people and provide us with the opportunity to profit from their future growth if not for angel investors, venture capitalists, and private equity investors who invest the initial capital and incur the greatest risk. Let's hope this war ends soon and we once again celebrate the risk takers and job creators who drive our economy and help to improve the standard of living for everyone.

Naughty: Government/Wall Street "Ethics"

On top of everything else we've endured over the past eleven years, we now find a former CEO of Goldman Sachs, United States senator, and governor of New Jersey sitting before Congress telling the American public that he didn't *intend* to take down a 228-year-old company just six months after taking the helm or "misplace" $1.2 billion in client assets that are now unaccounted for and were legally required to be segregated and protected from the assets of the corporation.

By the way, this scoundrel, Jon Corzine, was the *co-author* of the controversial Sarbanes-Oxley Act, enacted after the Enron debacle and known as the Public Company Accounting Reform and *Investor Protection* Act (in the Senate) and the Corporate and Auditing Accountability and *Responsibility* Act (in the House of Representatives)! Truly mind-boggling.

Do we really need more massive and ineffective regulation authored by Wall Street crooks and government lawyers to stem this tide of unethical behavior, or do we need to throw more of these crooks in prison for life? If this debacle doesn't convince us that the former is a waste of time, I'm not sure what will.

Naughty: Increased Government Interference in Our Free (but Not Unfettered) Market

We can only hope that shareholders of MF Global (the company Corzine destroyed) are not bailed out by the taxpayers and that the "too big to fail" insanity runs its course soon. But there have been many good books written recently by very well-informed people who would suggest otherwise. In fact, it appears that all the "efforts" by Congress so far have only made matters worse.

Without excusing in any way the unethical (and often criminal) behavior demonstrated by some Wall Street players, mortgage lenders, home buyers, and others, the federal government's significantly increased interference in the private economy over the past couple of decades (at least) has been a very costly burden on our economy and U.S. taxpayers. This tide must turn or our economic growth rate will almost certainly continue to decline.

Nice: Asset Class Balance and a Bright Future

Even after the fairly steep decline in "value" stock prices from May through September of this year, the large and small value stock indexes in both the U.S. and the foreign developed markets generated significantly higher returns since 2000 compared to the S&P 500.* Prudent and risk-appropriate balance between these core global asset classes should remain an objective of serious investors.

More companies are lean and mean, staffed by skilled and motivated employees, cash-heavy, and chomping at the bit to generate strong earnings per share growth than perhaps at any time in the past thirty years. A more positive and productive political environment; less uncertainty on regulatory, tax, and health care issues; and less distortion of rational risk/return dynamics due to misguided government involvement in the private sector would release these global thoroughbreds from their gates.

In a stable, forward-thinking society such as ours, short-term uncertainty and pessimism leads to higher expected returns in the future. In our view, the past eleven-year period of flat returns for U.S. large growth stocks bodes well for stock returns in the future.

Nice: Equius Growth and Development

In spite of a very uncooperative market, Equius continues to grow steadily in new accounts and assets under management. We are one of the largest advisors approved to invest in DFA funds in client portfolios and have achieved one of the highest growth rates among their approved advisors over the past several years. Much of this growth is attributable to the efforts of Eric Nelson and his work with the Schwab Advisor Network; the professionals at Pro-Fed Financial Advisors, who are responsible for many of our Midwest relationships; and T.J. Troutner and Jason Zahorenko's great work with our established relationships.

We continue to improve Equius with a high-performing team dedicated to a long-term, sustainable business and investment strategy. Katie Calagui's skills and dedication to this essential and continuing process have earned her the role of chief executive officer (CEO) of the firm. We look forward to many years of her thoughtful leadership. Katie, T.J. Troutner as chief relationship officer (CRO), and Phil Jonckheer and Jeff Troutner as managing directors form the Equius Leadership Team.

Equius remains committed to state-of-the-art investment strategies built on time-tested principles, while serving our clients with the professionalism and respect they deserve.

The Equius Team is very thankful for the quality of our client and professional relationships, and we wish everyone a happy, optimistic, and prosperous 2012!

*Annualized returns, January 2000 – October 2011: CPI 2.5%, S&P 500 index 0.5%, DFA U.S. Large Value index 2.8%, DFA U.S. Small Value index 11.2%, DFA Int'l Value index 6.7%, and DFA Int'l Small Value index 10.8%. **Past performance is no guarantee of future returns.**