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Adding Balance to Wealth℠

ASSET CLASS℠

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

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Investment Leadership

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Almost twenty years ago, I introduced *Asset Class*[1] with these words:

> Our goal is to provide short, to-the-point articles on any topic that benefits long-term investors. For guidance, we will rely on many of the principles outlined in the 1990 restatement of the *Prudent Investor Rule*, review objective data from a variety of experienced and reputable sources, and challenge much of the mainstream marketing hype flowing from "Wall Street" and its legions of brokers, financial planners, and money managers. We will also draw on my thirteen years of experience working for and evaluating investment managers and selling investment services as a broker with a major Wall Street firm.
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> In the end, this newsletter can only provide food for thought. I firmly believe that to be successful over the long-term, investors must accept the ultimate responsibility for their investment decisions. Since stock selection and market timing techniques have been shown over and over to add no value to investors, blaming brokers and money managers for failing to meet *your* objectives is not productive. Investors today have the information and basic "tools" to take control of their portfolios, lower their costs, and become the ultimate winners in a process that in the past favored only the financial "experts."

With the exception that the articles haven't always been as short as some readers of *Asset Class* would have preferred, our message and our approach to long-term investing has not changed. Neither, sadly, has Wall Street's nor the financial media's. In fact, with the creation and promotion of more expensive, complex, and speculative strategies; the experience of two severe bear markets in ten years; expanding globalization; and political dysfunction in the U.S. and Europe, the situation for the average investor has become ever more confusing and challenging.

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Asset Class Returns

December 31, 2012 (YTD)

	YTD 2012	Last 10 yrs.*	2011	2010	2009
Bonds (%)					
One-Year	0.9	2.3	0.6	1.2	1.9
Five-Year	4.8	4.0	4.5	5.3	4.2
Intermediate	3.7	5.3	9.4	6.9	-0.7
Long-Term	3.5	7.4	29.3	8.9	-12.1
U.S. stocks (%)					
Large Market	15.8	7.0	2.1	14.9	26.5
Large Value	22.1	8.4	-3.1	20.2	30.2
Small Market	18.4	10.9	-3.2	30.7	36.3
Small Micro	18.2	10.4	-3.3	31.3	28.1
Small Value	21.7	11.3	-7.6	30.9	33.6
Real Estate	17.5	11.4	9.0	28.7	28.2
International stocks (%)					
Large Market	17.8	8.4	-12.3	9.3	30.6
Large Value	16.6	10.2	-16.9	10.6	39.5
Small Market	18.9	12.8	-15.4	23.9	42.0
Small Value	22.3	13.5	-17.5	18.1	39.5
Emerg. Mkts.	19.2	17.4	-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 12/31/12.

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.**

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The Equius Client Experience

My emphasis on the updated *Prudent Investor Rule* in that first article was very important. First, it defined *prudence* in a very thorough and detailed way. Yet the overriding takeaway for me was that prudence can be defined simply as "the good sense to know what risks investors, particularly trust fiduciaries, should *and should not* take to meet long-term objectives." Second, it was written by non-Wall Street experts, for the most part, with significant reliance on peer-reviewed academic research that emphasized modern portfolio theory.

The result of that initial guidance and setting of basic principles has been, for Equius clients, an overall investing experience and investment portfolios that have become *less* confusing and challenging over time.

For example, we moved early on to the better and more consistently structured Dimensional Fund Advisors (DFA) "asset class" funds and away from most retail index funds or the new ETFs to build client portfolios,[2] and we removed and rejected certain asset classes that, for various reasons, failed to improve the expected risk and return characteristics of client portfolios over time.

We also categorically reject hedge funds as an asset class, recognizing early on that they were simply highly leveraged, ultra-expensive active strategies—their most prominent feature being the likelihood of failing more spectacularly than the typical actively managed mutual fund. And while most investors manage to lose money jumping in and out of non-investments like precious metals and other commodities, to us they simply represent short-term emotional distractions with no expected future real return and no place in a well-structured portfolio.

The recent and totally predictable resurgence of tactical asset allocation (market timing) to "deal with" market, economic, and political volatility remains comic entertainment for us, even as it's embraced by an industry partner (our primary custodian) we otherwise respect.

Simplifying portfolios, rejecting Wall Street's and the financial media's siren calls, and counseling our clients to ignore all the short-term noise produced by the investing traditionalists and their friends in the media have allowed Equius and our clients to achieve unique success—both financially and emotionally—over these last 20 years.

You Are an Investment Leader

One definition of a *leader* is a person, organization, or company that had the courage to challenge conventional wisdom in search of a better way. Once discovered, a true leader then seeks to share that knowledge to improve the lives of others. This was precisely why Equius was founded, and as a result, our clients possess knowledge, a history of positive investment experiences, and peace of mind that 80% of investors (those who still rely on active strategies) do not.

Leadership catalyzes positive change by providing others with the guidance and support they need to reach their goals. We invite you to participate in providing that leadership to your friends and family by sharing with them your positive investment experience. You can help them increase their odds of success, help them reduce anxiety and stress around investing, and free them to direct their energy and financial capital toward the experiences they value the most. The team at Equius Partners stands committed to assist you in these efforts. Our doors are always open to anyone you want to share this unique knowledge with—whether the person's goal is to make a change in his or her portfolio or to simply gain new perspective.

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[1]Originally called the *TAM Asset Management Review* when it was launched in July 1993.

[2]In the meantime, Vanguard has changed the underlying retail indexes for its funds several times, while other funds and ETFs have adopted inferior "passive" methods to try to capture the small-cap and value return premiums.