EQUIUS PARTNERS
Adding Balance to Wealth℠

ASSETCLASS℠

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

Asset Class Returns

June 30, 2015

	YTD 2015	2014	2013	2012	Past 10 yrs.*
Bonds (%)					
One-Year	0.3	0.3	0.3	0.9	2.1
Five-Year	1.0	2.9	-0.4	4.8	3.6
Intermediate	0.8	5.2	-3.5	3.7	4.8
Long-Term	-4.0	23.9	-11.4	3.3	7.5
U.S. stocks (%)					
Large Market	1.2	13.5	32.3	15.8	7.7
Large Value	1.3	10.1	40.3	22.1	8.1
Small Market	4.4	4.4	42.2	18.4	8.8
Small Micro	4.2	2.9	45.1	18.2	7.8
Small Value	2.5	3.5	42.4	21.7	7.9
Real Estate	-6.0	31.1	1.4	17.5	8.1
International stocks (%)					
Large Market	5.5	-5.2	20.7	17.8	4.6
Large Value	6.7	-7.0	23.1	16.6	4.6
Small Market	9.3	-6.3	27.4	18.9	6.7
Small Value	10.1	-5.0	32.4	22.3	7.1
Emerg. Mkts.	1.3	-1.7	-3.1	19.2	8.6

All returns except "YTD" (Year to Date) are annualized.

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	Long-Term Gov't Bond Index
U.S. Large Market	DFA US Large Company fund
U.S. Large Value	DFA US Large Cap Value fund
U.S. Small Market	DFA US Small Cap fund
U.S. Small Micro	DFA US Micro 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

"Past 10 yrs." returns are ended 12/31/14.

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Gray Hair Not Required

Jeff Troutner, Equius Partners

I've had three arthroscopic surgeries—one on each knee and one on a shoulder. On a recent mountain bike trip from Telluride to Moab, during which I crashed twice, I somehow avoided injuring the other shoulder. But the crashes got me thinking about whom I would go to for the next inevitable surgery.

An older doctor performed all three of my surgeries. He's an experienced orthopedist, but I'm not convinced he's as up to date on the science of his profession as are younger physicians in his group. I haven't connected well with him on the three or four false alarms the last few years because he seems to have lost some enthusiasm for the daily grind of listening, diagnosing, and recommending the best solution. So, I'm switching to a younger doctor.

We're Not Your Father's Investment Advisor

When I entered the investment business 34 years ago, my first boss was the stereotypical dispenser of investment "advice" at that time. He was a stockbroker and member of the Midwest Stock Exchange. He wore dark, expensive suits and looked very distinguished with his slicked-back, gray-streaked hair. He drove a big, late-model Mercedes-Benz. He was a member of the most prominent country club in the city and was very well-connected in the community. He was also over 50 years old.

I worked for George for two years and never knew how he and the rest of his brokers managed client relationships or investment portfolios. In fact, there were no portfolios. The firm had no unifying, consistently applied, or even defined investment philosophy or strategy. No quarterly performance reports, no talk of risk and expected return, and no financial planning of any kind. Tax management meant selling expensive, illiquid, and complex limited partnership deals. Investment "recommendations" were based on highly persuasive research reports on individual companies purchased from a very old company in Chicago and motivated by the firm's monthly production goal (i.e., total commissions generated).

Mostly older guys selling *ideas and stories*, that's what that was.

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It's hard to believe how many people still work with stockbrokers this way 30 years later. Those who don't tend to work with similar old-school types on a fee basis rather than commissions. Sure, there are more women dispensing advice today and there will always be young people moving up through the ranks. But investors stuck in this world are buying *experience* and almost nothing else.

Now, experience per se is not bad. Phil and I built Equius on a foundation of modern financial economics precisely because we had so much old-school experience. There was a time when experience in analyzing individual stocks, economic reports, market trends, and interest rate and inflation forecasts added value to an advisory relationship. But while our experience opened our minds to the realities of *modern* financial markets and human behavior, the rest of our industry, for the most part, dug in their heels and put more energy into obscuring the truth than revealing it to clients and adapting in mutually beneficial ways.

Obscure No More

Fortunately, we now have access to incredibly powerful computers and software programs populated by information obtained from robust databases and scrubbed and analyzed by PhDs and Nobel Prize winners. The output, which is so overwhelmingly compelling and irrefutable that even the Wall Street-dominated mainstream press finds it difficult to ignore, shows that 80% of old-school advisors can't beat a simple market index over time and the "winners" change constantly.

This basic knowledge underlies the dramatic evolution of investment advice over the past three decades. And it can be shared very effectively by a 20-something who meets with a young couple in the early stages of building their net worth, planning for college expenses, or investing their 401(k) money; older couples planning for retirement; and foundation boards tasked with building and preserving wealth to fund good causes.

Selling "ideas" and one's alleged talent at outsmarting everyone else has been replaced by good listening skills, empathy, and a focus on long-term, sustainable solutions to investing challenges. Confidence and emotional discipline, so important for both advisors and their clients in the face of perpetually volatile financial markets, is enhanced with additional knowledge of *why* markets are efficient and *how* investors can exploit market efficiency for better risk-adjusted outcomes.

None of this requires gray hair or old-school-style experience. It requires only a good mind and a good heart. When so much personal judgment and irrational bias is removed from the investment process, it's amazing how relationship dynamics and outcomes change immensely for the better. Focus rightly shifts from the messenger to the message.

Equius clients know this. Phil and I have extensive experience in this industry, but it's the next generation of Equius advisors—ranging in age from 28 to 39—who are driving our business, our message, and our client experiences into the future.

They are taking over established long-term relationships. They are reaching out to our clients' children and grandchildren to help them avoid making the same mistakes as their parents or grandparents. And they're the ones introducing our principles and values to new clients, both young and old, more broadly, more methodically, and more effectively than Phil and I were able to in the early years of this investing (r)evolution.

Our clients have been very receptive to this growth and transition at Equius. I believe this is true because our clients have acquired a different level of knowledge and confidence in financial markets, a healthier skepticism of our industry that fuels intellectual growth rather than destructive behavior, and a willingness to learn from and be guided by true professionals who may be younger but are considerably wiser than so many other advisors in our industry.

Phil and I will continue to invest in, mentor, and transfer ownership to the next generation of advisors because we want to ensure that we not only maintain our successes but also improve upon them for the benefit of all our current and future clients.