EQUIUS PARTNERS
Adding Balance to Wealth℠

ASSET CLASS℠

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

November 2012

Asset Class Returns

October 31, 2012 (YTD)

	YTD 2012	Last 10 yrs.*	2011	2010	2009
Bonds (%)					
One-Year	0.9	2.6	0.6	1.2	1.9
Five-Year	4.5	4.5	4.5	5.3	4.2
Intermediate	3.5	6.4	9.4	6.9	-0.7
Long-Term	4.2	8.7	29.3	8.9	-12.1
U.S. stocks (%)					
Large Market	14.2	2.8	2.1	14.9	26.5
Large Value	18.2	4.6	-3.1	20.2	30.2
Small Market	13.4	6.7	-3.2	30.7	36.3
Small Micro	12.9	7.1	-3.3	31.3	28.1
Small Value	15.2	8.1	-7.6	30.9	33.6
Real Estate	13.7	10.1	9.0	28.7	28.2
International stocks (%)					
Large Market	11.2	4.9	-12.3	9.3	30.6
Large Value	9.5	7.6	-16.9	10.6	39.5
Small Market	12.3	11.0	-15.4	23.9	42.0
Small Value	13.5	11.9	-17.5	18.1	39.5
Emerg. Mkts.	11.2	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.**

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Giving Thanks

Phil Jonckheer, Equius Partners

> Gratitude is not only the greatest of virtues, but also the parent of all others.
> *Cicero*

Thanksgiving: The Holiday

"Thanksgiving dinners take eighteen hours to prepare. They are consumed in twelve minutes. [Football] half-times take twelve minutes. This is not a coincidence."

Although the American humorist, Erma Bombeck, might be onto something, we'd like to explore a few other factors that explain Thanksgiving's deeper meaning and why it's considered such a special holiday.

The way our tradition has evolved, Thanksgiving's focus is on family, friends and food, not on a furious exchange of gifts. The appeal of the holiday is simply reveling in the experience that comes from spending time with those we love. The allure and satisfaction we feel during a holiday without material gifts is explained by the fact that fundamentally we find more happiness enjoying experiences than accumulating possessions.

Is Happiness Limited?

Research indicates that expressing gratitude throughout the Thanksgiving weekend and the euphoria that can result from building another experience with those we love (family dynamics aside for the moment!) can boost happiness levels significantly. However, just as there's a weight that feels natural to your body and that your body wants to maintain (a major challenge at Thanksgiving!), research indicates your standard level of

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happiness also is set at a predetermined point. If something untoward happens to you, your level of happiness drops temporarily but eventually returns to that predetermined level. Conversely, if something great happens to you, your happiness rises but eventually, reverts back to your "happiness set point." Is there a way to permanently elevate that set point beyond the Thanksgiving high?

Adam Smith, the Scottish moral philosopher and father of modern economics, didn't think so. Although he believed gratitude was essential to a free society and considered it a fundamental component of the moral capital needed for a society to flourish, in *The Theory of Moral Sentiments*, published in 1759, he observed, "The mind of every man, in a longer or shorter time, returns to its natural state of tranquility. In prosperity, after a certain time, it falls back to that state; in adversity, after a certain time, it rises up to it." In 1999, behavioral economists expanded on and confirmed this concept. They labeled it hedonic adaptation. Their research indicates that gains in happiness quickly become assimilated as our current position and define a new norm. As a result, life circumstances only temporarily improve a person's perception of happiness. Can the message of gratitude that we (re)learn over the Thanksgiving holiday release us from this hedonic treadmill and lead us to a higher happiness set point that we can permanently appreciate?

To Have or To Do

An adage that deeply resonates with me is this: Gratitude is the heart's memory. My mom passed away last year. In the throes of Alzheimer's she wanted nothing but remained sublimely grateful for all that surrounded her. For mom, bereft of the memory her brain could no longer call forth, gratitude certainly was the memory of her heart.

It does appear that to the extent experiences are the source of gratitude, our happiness and well-being levels are dramatically and more positively affected than if we pursue materialistic goals. Not surprisingly, accumulating material goods makes no difference in people's assessment of their well-being. Sadly, people driven by materialistic goals are more likely to suffer any number of mental disorders. Conversely, people pursuing experiences are much happier. Here's why:

Experiences are more likely to be reviewed positively through the sieve of our selected histories (my father once told me we only remember the good times).

We are more prone to identify ourselves through our experiences, not our possessions.

Experiences are more likely to be social, and those histories are more likely to be shared with friends. We thrive on stories. In those social settings, materialism is more likely to be defined on a relative basis, while experiences tend to inform happiness absolutely.

But can bursts of happiness based on an experience raise our happiness set point to a higher level? Yes, they can. The reason is that gratitude is positively associated with qualities such as empathy, forgiveness and the desire to help others that are eternal and boundless. Gratitude doesn't just make us feel good; it inspires us. That too is an eternal quality. People who rate themselves as grateful are also more prosocial and inclined to emotionally support their friends. In addition, when we are grateful, we also are more loving, joyful, optimistic and enthusiastic. There are no limits on those characteristics.

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What Adam Smith did not seem to appreciate fully was that by taking us outside ourselves and contributing positively to friendship and civility, gratitude promotes more noble and larger networks of sustainable relationships. Relationships that engender gratitude are benevolent since they wish the recipient well. Those relationships also are reciprocal. Thank someone for anything if you're wondering about gratitude's reciprocity. The outcome is not a treadmill but rather an ever-expanding flow of passing on the gift of gratitude.

Cicero also wrote, "There is no duty more indispensable than that of returning kindness." His contemporary, Seneca, believed that "He who receives a benefit with gratitude repays the first installment on debt." As the link between receiving and giving, gratitude is scalable and sustainable. And what really makes grateful people rich is their enterprise's dividend: happiness.

To increase the odds of overcoming the tendency to hedonic adaptation, try engaging in the following:

- Any kind of exercise
- Socializing and being kind to others
- Treating yourself to bursts of gratefulness and optimism
- Being deliberate about pursuing goals and engaging in meaningful causes

Since these activities tend to be more episodic in nature, they are less likely to succumb to the inertia of hedonic adaptation and therefore are more likely to create a higher level of happiness. Note how our Thanksgiving holiday gives us an opportunity to engage in at least two of the above activities (three, if you consider eating a kind of exercise...).

When Risk and Return Are Not Related

Albert Einstein suggested that there are only two ways to live your life: One is as though nothing is a miracle; the other is as though everything is a miracle.

Is there a miraculous investment that offers no risk and enormous returns? You bet there is: Practicing gratitude is risk free and takes only a tiny bit of time. Being thankful, counting blessings, recognizing simple pleasures and being continuously aware of how much you've been given is living your life as if everything were a miracle. Gratitude, therefore, focuses your attention on abundance. That abundance dividend constantly is being distributed to its shareholders. Moreover, research indicates that giving thanks makes people happier, more resilient, alert, enthusiastic, optimistic, and energetic; strengthens relationships; improves health; reduces stress; and promotes better sleep. So you see, it's not just the L-tryptophan (amino acid) that explains that deep post-Thanksgiving slumber.

As a way to quantify the expected returns on the risk-free gratitude that emanates from experience, I turn to the Endowment Effect and research I presented in an earlier *Asset Class* article. The Endowment Effect is the tendency for people to pay more to retain something they own than to obtain something owned by someone else. This was vividly represented by Duke students who owned tickets to the NCAA final four tournament, a coveted experience. Students who owned the ticket valued it (and were prepared to sell it) at a price 1300% more than the bid offered by the students who did not own the dream ticket. A reason for the enormous price gap between ticket owners and non-owners was that the owners imagined the glory of the game and placed a dramatically high value on

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the stories of the experience they would relate to their grandchildren, whereas those who didn't own the tickets simply imagined what else they could buy with the price of the ticket. 1300% return. No risk. Any interest? Just say thank you...

A New Five-Factor Model

Our investment advisory firm and the portfolios we construct are founded on the evidence-based, peer reviewed research of the Fama/French Three-Factor model that identifies the dimensions of market risk that drive a portfolio's expected returns. Thanks to Bob Berg and John Mann, who have enlightened us with their book called *The Go-Giver*, we now have a five-factor model that identifies the dimensions of giving that conjures up gratitude and results in "stratospheric success." We invite you to consider these laws as guideposts in your work and play. We at Equius are committed to upholding them:

> **The Law of Value:** Your true worth is determined by how much more you give in value than you take in payment.
>
> **The Law of Compensation:** Your income is determined by how many people you serve and how well you serve them.
>
> **The Law of Influence:** Your influence is determined by how abundantly you place other people's interests first.
>
> **The Law of Authenticity:** The most valuable gift you have to offer is yourself.
>
> **The Law of Receptivity:** The key to effective giving is to stay open to receiving.

Gratitude not only informs all the above laws, it is the two-way superhighway between giving and receiving.

Eric Hoffer, the famous author, suggested that the hardest arithmetic to master is that which enables us to count our blessings. As we bask in the afterglow of the Thanksgiving weekend and wind our way into December's holiday season and another new year, let us do all we can to prove Eric wrong! A good start would be to extend the spirit of Thanksgiving throughout the year and revel in the infinite returns that are realized when we offer our gratitude for the experiences that define increasingly higher levels of happiness.

EQUIUS Inside...

Equius Partners is pleased to formally announce the addition of Judy Arntz to the Equius Team. Judy joined us in April and serves as our portfolio administrator, working with Schwab to process your account servicing tasks. She will also soon be answering and directing your phone calls as we transition from Ruby Receptionists.

On January 1, 1993, Equius Partners entered into its first investment advisory relationship built 100% on "passive" asset class investing principles. Over these 20 years our principles, strategies, and how we communicate to our clients have remained markedly consistent—a distinctive achievement for our industry!

The Equius Team is grateful for the time and effort you have invested to understand and embrace our investing principles, and for the trust you have placed with us. We're grateful to all of you—those who have been with us for most of these two decades, as well those new to the Equius fold— and are gratified to see these principles passed on to children and grandchildren. Sadly, our first client of 1993, Daisy Headford, passed away in 2009. But her son, Jim, and his family continue Daisy's legacy with Equius today.

Equius and our clients will continue to face new challenges and new opportunities over the next two decades and beyond. We're optimistic and excited about the future as our team and the clients we serve continue to grow and prosper.