

Asset Class Returns

November 30, 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	4.8	4.5	4.5	5.3	4.2
Intermediate	4.2	6.4	9.4	6.9	-0.7
Long-Term	5.6	8.7	29.3	8.9	-12.1
U.S. stocks (%)					
Large Market	14.8	2.8	2.1	14.9	26.5
Large Value	18.5	4.6	-3.1	20.2	30.2
Small Market	14.7	6.7	-3.2	30.7	36.3
Small Micro	13.9	7.1	-3.3	31.3	28.1
Small Value	17.4	8.1	-7.6	30.9	33.6
Real Estate	13.3	10.1	9.0	28.7	28.2
International stocks (%)					
Large Market	13.4	4.9	-12.3	9.3	30.6
Large Value	11.1	7.6	-16.9	10.6	39.5
Small Market	13.3	11.0	-15.4	23.9	42.0
Small Value	15.1	11.9	-17.5	18.1	39.5
Emerg. Mkts.	12.6	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.

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Past performance is not a guarantee of future results.

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Other Voices



Walter Isaacson's Book *Steve Jobs: A Great Economics Lesson*

John Tamny, Editor, RealClearMarkets.com

While reading the first volume of the late William Manchester's *The Last Lion*, his brilliant but unfinished biography of Winston Churchill, this reader's initial reaction was that the stuff on the page couldn't be real. So amazing and unputdownable were Manchester's stories about Churchill that they took on a fictional, Steven Spielberg-like quality.

Manchester's book came to mind while reading *Steve Jobs*, Walter Isaacson's excellent biography of the late Apple Inc. co-founder and reviver. To read about Jobs is to at times think one is reading fiction, so impressive was his life. For those who haven't read *The Last Lion* or *Steve Jobs*, run, don't walk to your local bookstore.

Beyond that, the Jobs biography is an amazingly useful economics lesson. Even if Jobs' life doesn't interest you, or even if you can't stand Apple products (I own none), Isaacson's story of this modern-day Thomas Edison explains better than any textbook the wonders of free trade, the folly of antitrust rules, job creation, executive compensation, failure, and profits. If teachers are struggling to reach kids on these subjects, here's their book.

Since the wonders of free trade are often the least understood and hardest for teachers to explain, it's perhaps best to begin there. The founding in the 1970s of what was then Apple Computer was a model of the all-important division of labor.

Steve Wozniak was a programming wizard, but as he makes plain to Isaacson, he didn't have a clue how to market his computer ideas, nor did he know that what he was doing was marketable. Or as PR genius Regis McKenna noted, "Woz designed a great machine, but it would be sitting in hobby shops today were it not for Steve Jobs." Alone, these two geniuses weren't worth much; but together, through the very division of labor that defines free trade, they created Apple Computer. Liberty isn't the only reason that people should be allowed to trade freely.

Indeed, one of Jobs' most notable modern achievements were the iPod and the iTunes Store, which totally revolutionized how the world

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consumes music. But as Jobs learned at Pixar, “Tech companies don’t understand creativity,” while “music companies are completely clueless about technology.” Considering the rise of the iPod and a whole new way of buying music, Apple’s geniuses may have loved music, but they never could have created it. Music’s visionaries may have loved technology, but they clearly weren’t good at using it to manage the changes in their industry, as evidenced by difficult earnings amid rising piracy. Of course when the work was divided between Apple and the various music companies, the profits of both sides soared. Comparative advantage is arguably one of the most powerful concepts known to mankind.

Free trade also ensures that the consumer comes first for businesses competing for the patronage of the consumer. The more our markets are open and free, the more great minds there are competing to please us. Born in 1955 were two of the greatest competitors the world will ever know: Bill Gates and Steve Jobs.

Gates clearly derived great joy from Jobs’ failures (there were many), plus he felt that Jobs “never knew much about technology.” Jobs would regularly decry Microsoft’s “crappy” products, plus late in life was blunt in saying that “Bill is basically unimaginative and has never invented anything.” But while there was dislike between the two, there was also what Isaacson acknowledges as a grudging mutual respect.

Both Jobs and Gates bothered to comment on the work of the other and to criticize the other precisely because deep down, both knew that the other was brilliant. Their dislike was almost Russian in the sense that the success of Gates pained Jobs and vice versa, but consumers should be thankful that markets were open and free so that these two titans of capitalism could take each other on. Their desire to win, and to overshadow the other, redounded to the consumer in a major way. Foreign competition for our dollars is no different. Let’s open up our markets.

Antitrust is the fatal conceit that says government officials can and should break up certain dominant companies in order to maintain competition in the marketplace. Importantly, Isaacson’s story of Apple’s rise, fall, and rise proves the folly of such moves. Simply put, it’s nearly impossible to predict

the commercial future of any business or business sector.

As Isaacson writes, Hewlett-Packard ruled the Silicon Valley roost when Apple became Apple Computer Co. in January of 1977. Back then, Jobs, Wozniak, and a third partner “valued it at \$5,309.” Nearly four years later, and after an IPO that would be “the most oversubscribed initial public offering since that of Ford Motors in 1956,” Apple was worth \$1.79 billion. In 1980 Bill Gates was a fly to Jobs’ elephant, but by the late ’90s when Jobs returned to Apple, the once high-flying Apple was near bankruptcy while Gates was the richest man in the world; his company so successful that the Department of Justice’s antitrust attorneys naively felt the need to restrain it.

Importantly, no one predicted in 1980 that Gates would eventually eclipse Jobs. If you say you did, show me your billions. Of course, as evidenced by the general lack of Forbes 400 members who made their fortune on Apple shares, it’s apparent that when Gates’ Microsoft invested \$150 million in what was then a dying Apple, most didn’t predict good fortune for Jobs when Apple’s board re-installed him as CEO.

But as most now know, Jobs’ turnaround plan was so sound that before long the once near-death Apple had morphed into the most valuable company in the world. Not long before his death, Jobs bought the Cupertino headquarters of Hewlett-Packard, the onetime highflier that lost its way, with an eye on building the best corporate campus “in the world.”

Odds are some Silicon Valley-based start-up that today we’ve never heard of will eventually rise to eclipse Apple when the latter inevitably loses its own way. Antitrust is worse than pointless. If you doubt this, read Isaacson’s book, which shows how markets with great ruthlessness regularly rearrange the commercial pecking order.

Looking at executive compensation, Jobs died with a net worth of roughly \$10 billion, a function of his holdings in Pixar and Apple. Upon return to Apple, Jobs accepted pay of \$1 per year until his interim CEO tag was removed, at which time the board purchased him a Gulfstream V and offered him options on 14 million Apple shares. Jobs asked for options on 20 million shares, and his request

actually disappointed board member Ed Woolard, according to Isaacson.

The point of all this is that no doubt Jobs' options plus the Gulfstream offended numerous CEO pay scolds at the time, but as history reveals, Jobs was arguably the most undercompensated CEO in the history of the world. His innovations turned what was a dying company into the world's most valuable, yet all he got was a plane plus \$5 billion?

What this tells us is because CEOs at least have the potential to impact companies the way Jobs did, their pay is going to reflect it. Sometimes they'll be underpaid as Jobs was, and sometimes they'll be vastly overpaid. It's hard to know which, and for those reading this who blurt out that "Steve Jobs was different, he was a genius, he deserved his pay, you're cherry-picking", kindly show me your Apple share buy slip from the summer of '97 when Jobs made official his return as CEO of Apple.

A major reason most can't point to Apple shares purchased fifteen years ago is that upon his return Jobs' track record wasn't unblemished. In 1985, Jobs' immaturity led to his ouster of the company he co-founded. He was so beaten down that Apple's board chose John Sculley over him.

Notably, Jobs wasn't an immediate success upon departure from Apple either. Indeed, as Isaacson described Jobs' time at his next creation, NeXT, "The result was a series of spectacular products that were dazzling market flops." But as Isaacson said of Jobs' errors, "This was the true learning experience."

With the above in mind, too bad U.S. banks and carmakers aren't allowed "dazzling market flops" as Jobs was. At the risk of seeming flippant, the unseen here is what banks and carmakers have never become thanks to politicians always cushioning their flops. Consumers can of course thank goodness that the frequently offensive Jobs didn't have much in the way of Washington pull. He and his customers were better off for his errors not being subsidized.

As for his taking the reins of Pixar, far from being a glamorous beginning, Jobs gained control of it from George Lucas, who was at the time raising cash to pay for a divorce. Isaacson recounts that after that, Pixar became a money pit for Jobs; so

much so that Jobs at one point "had been hoping to find a buyer for Pixar that would let him merely recoup the \$50 million he had put in." Luckily Jobs failed to find a buyer because when Pixar floated its shares on the back of the unexpected success of *Toy Story*, his Pixar stake was suddenly worth \$1.2 billion.

Failure is a teacher that, if left alone, can lead to success. Failure meant that upon Jobs' return to Apple, its shareholders were the major beneficiaries of a much more experienced leader.

When speaking about the subject of job creation during the GOP primaries, and then during his campaign for President, Mitt Romney was regularly demonized by Democrats and Republicans alike for how he allegedly made his money. To hear his detractors, Romney had earned his wealth through the laying off of defenseless employees, the looting of companies, etc. Something tells this writer that Jobs wouldn't have agreed with Romney's ankle biters. As he relayed to Isaacson about his experience with the initial Apple Macintosh:

"It's too easy, as a team grows, to put up with a few B players, and they then attract a few more B players, and soon you will have even some C players. The Macintosh experience taught me that A players like to work only with other A players, which means you can't indulge B players." In short, Jobs would perpetuate employment through the shedding of laggards. No profits, no investment, no jobs.

Jobs' vision of how a successful company can be that way proved important upon his return to Apple in 1997. Much as Romney's Bain Capital made its fortune through the purchase of sick companies that were nursed back to health, Jobs arrived to an Apple that was "less than ninety days from being insolvent," and as Isaacson writes, "In his first year back, Jobs laid off more than three thousand people, which salvaged the company's balance sheet." Like Romney, Jobs understood that the quickest path to success and job creation is often job destruction. Jobs got rid of the B players, but in doing so he created a world-class business. Whatever one thinks of Romney the candidate, what his political opponents said about his business career brought new meaning to dirty politics.

As for profits, it's popular in today's world to demonize them, but Jobs told Isaacson that "it was great to make a profit, because that was what allowed you to make great products." To be fair, Jobs felt that "products" had to be the motivation over "profits," but the simple truth is that profits or lack thereof were what told him (indeed, forced him) to stop producing the Lisa in favor of the iPod, iPhone, and iPad. Jobs was a product guy, his love of the product led to great innovations, but his actions were ultimately governed by a profit-and-loss mechanism that redounded in amazing ways to his myriad worshippers.

Profit "was what allowed you to make great products." That should be remembered, and more to the point, taught. Profits ultimately provide entrepreneurs with knowledge and light, plus they signal to investors which entrepreneurs to back. Steve Jobs grew very rich because his vision of the future was most in line with that of a growing customer base that showered his company with money. To read Walter Isaacson's masterful *Steve Jobs* is for even the most congenitally socialist to admit, maybe only in the quiet of their minds, that profits are good.

My Apple Experience: The Road to Greater Value and Productivity

Jeff Troutner, *Equius Partners*

I started my career in finance as a stockbroker in 1980. That wasn't my first choice. Even as a wet-behind-the-ears recent college graduate, I knew that stockbrokers were salesmen who sold *products* (that was confirmed by my brief exposure to Merrill Lynch's "training program"). Not being a natural salesman, the only alternative was a position at a bank trust department (ever watch paint dry?). So I had to try to make lemonade out of lemons, as they say.

I was fortunate to be hired by a small local brokerage firm, then moved a couple of years later to Shearson Lehman Brothers. In 1984, I decided to leave the product sales culture by recommending independent, fee-based investment advisors exclusively to my clients. This meant that I needed to do something totally alien to stockbrokers—compute and report total portfolio performance for my clients.

So I waltzed down to the local computer store to demo the IBM PC, running DOS, and some new invention called the Apple Macintosh. The IBM PC was clearly old-school, with computer commands typed in with green letters on a black screen. The Macintosh, on the other hand, was state-of-the-art and operated with a new graphical user interface (GUI) that included a desktop, folders, and files that represented real life. Computer commands were selected from menus using a "mouse," and what you created on the screen looked the same when you printed it out (WYSIWYG). It was no contest.

I plunked down almost \$3,000 for my first Macintosh, and along with an ImageWriter printer and early versions of Microsoft Word and

Excel, I was on my way to quickly and easily crunching numbers and printing beautiful performance reports for my clients. There is no question that the Apple technology allowed me to build a very unique, high-value service. This service, in turn, helped me to become one of Shearson's top brokers. This is what technology and progress *should* do—enhance productivity and create more value for everyone involved.

The Shearson experience motivated me to join one of my recommended advisors, where I introduced the Apple technology to their marketing department. When I founded my own firm in 1993, my "Think Different" attitude (thanks, Apple) led me to reject the old-school technology of active management and build portfolios around the state-of-the-art science of asset class investing. Apple technology was critical in helping me communicate effectively the principles and benefits of this new approach. In fact, all issues of *Asset Class*, starting in mid-1993, have been produced using Macintoshes and Apple-compatible software.

Today, Equius is virtually all Apple, from desktop iMacs to Mac Air laptops, iPhones, and iPads. Could we/I have built the same level of business success and delivered the same client experience without Apple's great products? Perhaps. But it would not have been nearly as fun or productive, I assure you. The Mac truly was the "computer for the rest of us."

An early [Apple commercial](#) describes both the Macintosh and the Equius approach well with this line: "It's more sophisticated, yet less complicated." Indeed.