EQUIUS PARTNERS
Adding Balance to Wealth℠

ASSET CLASS℠

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

Asset Class Returns

January 31, 2015

	YTD 2015	2014	2013	2012	Past 10 yrs.*
Bonds (%)					
One-Year	0.2	0.3	0.3	0.9	2.1
Five-Year	1.7	2.9	-0.4	4.8	3.6
Intermediate	2.8	5.2	-3.5	3.7	4.8
Long-Term	4.1	23.9	-11.4	3.3	7.5
U.S. stocks (%)					
Large Market	-3.0	13.5	32.3	15.8	7.7
Large Value	-5.0	10.1	40.3	22.1	8.1
Small Market	-4.1	4.4	42.2	18.4	8.8
Small Micro	-4.9	2.9	45.1	18.2	7.8
Small Value	-5.0	3.5	42.4	21.7	7.9
Real Estate	6.9	31.1	1.4	17.5	8.1
International stocks (%)					
Large Market	0.0	-5.2	20.7	17.8	4.6
Large Value	-0.7	-7.0	23.1	16.6	4.6
Small Market	-0.8	-6.3	27.4	18.9	6.7
Small Value	-0.7	-5.0	32.4	22.3	7.1
Emerg. Mkts.	0.6	-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.

Equius Partners, Inc.
3 Hamilton Landing, Suite 130
Novato, CA 94949
Phone: 415-382-2500

February 2015

A Value-able Story Seldom Told

Jeff Troutner, Equius Partners

In last month's *Asset Class* I outlined the core philosophies of long-term investing and outlined why our strategy, asset class investing, has been *the* outstanding approach over the past 20 years. It's safe to say that asset class investing is also the least well known by investors who could benefit from it the most. I attribute much of this to the momentum of media attention traditional indexing has enjoyed since the late 1990's.

Asset class investing is the most evolved and therefore *modern* form of indexing. It builds on the most investor-friendly principles of indexing by introducing two essential enhancements that improve preferred outcomes dramatically:

- A multi-dimensional view of markets introduced by academics Eugene Fama, Sr. (2013 Nobel prize winner) and Ken French in 1992, and successfully captured for the last 22 years in mutual funds managed by Dimensional Fund Advisors (DFA).
- The knowledge, confidence, and discipline a committed group of advisors bring to clients who acknowledge the destructive and *powerful* behavioral forces that too often undermine a long-term investment plan.

These enhancements were particularly valuable in relation to traditional indexing over the extreme market environment of the last 20 years. Traditional indexing, by the way—at least how it's promoted by Vanguard, the major ETF providers, and the new robo-advisory model—is now our primary challenger as we work to improve outcomes for more and more investors. Active management, the speculative struggle to produce better-than-market returns with stock picking and market timing—has long ago transitioned from a serious competitor to a pathetic distraction.

Focusing on the science and logic of asset class investing has allowed Equius Partners to push back against the dominant narratives of the last 20 years, and has provided a superior investing experience for our clients. These narratives are:

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- ➡ The "New Era" concentration in large growth stocks (1995–1999).
- ➡ The "0% expected future return" mantra near the S&P 500 peak (1999–?).
- ➡ The "total stock market index" diversification myth espoused by Vanguard's John Bogle (2000–present).

During the years of the first narrative, we maintained a significant (in relation to the market) tilt toward small company and value stocks, rebalanced when necessary, and then we set realistic expectations through *Asset Class* articles such as "The Asset Allocation Debate Rages On" (March 1999) and "Should We Fear a Total U.S. Market Collapse? Or Is a Gradual Rotation Among Asset Classes More Likely?" (January 2000).

Near the bottom of the dot-com crash, we wrote "The Tortoise & The Hare Revisited" (June 2002) and "We Are, I Regret, Captives of Recent History" (March 2003). Both warned our clients of the dangers of market timing.

As the real estate market began to implode in 2007, we again encouraged our clients to focus on the long term and avoid the temptation to bail out of stocks, as underscored in our articles "Optimism Pays" (November 2007) and "Past Declines & Their Recoveries" (February 2009).When the U.S. market began its dramatic recovery in March 2009 our clients' portfolios performed as expected. Unlike many investors, particularly those who indexed, our clients did not experience a "lost decade" from 2000-2009.

A Story Almost Told

In June 1996, when my firm (TAM Asset Management) and *Asset Class* were only three years old, I received a call from Jonathan Clements of the *Wall Street Journal*. He was doing an article on indexing in which he conveyed that there were five different approaches to the strategy.[1]

Back then, indexing was still in its infancy. As a matter of fact, three of the five options Jonathan outlined were simply mixes of active management and traditional indexing—a hope-springs-eternal approach I've referred to derisively in the past as "fence sitting."

Jonathan described two *true* indexing choices: the traditional Vanguard method of buy-and-hold investing in the large company-dominated S&P 500 index fund, and a more evolved "value indexing" asset class approach, which I was implementing with clients at TAM.

The article provided no details about the TAM approach (such as the Fama-French science behind it) and did not mention the potential benefits of this strange new approach. (But it did include a rather prescient quote from me on its future prospects.)

Several years later, around 2000, I heard from Jonathan for the first time since he'd published that article. He wanted to clarify my views on "total stock market" indexing (which I covered in depth in the September and November 1999 issues of *Asset Class*). This indexing orthodoxy was being preached by John Bogle and remains dominant today. More evolved approaches such as ours were—and still are—derided by too many so-called "experts" as forms of active management.

I haven't heard from Jonathan since then. But here's our answer to the Bogle-dominated era:

Index/Asset Class Fund[2]	6/1996-12/2014 Annual Return (Total Return)	1/2000-12/2014 Annual Return (Total Return)
Vanguard 500	8.2% (332.5%)	4.2% (86.0%)
Vanguard Total Stock Market	8.3% (341.6%)	4.8% (102.6%)
DFA US Large Cap Value	9.6% (446.5%)	8.4% (237.3%)
DFA US Small Cap Value	11.6% (661.9%)	11.6% (419.9%)

Large company and real estate stocks are leading the market today (see the updated "Yearly returns are random" table on the next page) and foreign stocks are lagging.

Our advice now? Have confidence in your balanced, diversified asset class portfolio and spend more time on things you can control and that offer you the greatest fulfillment.

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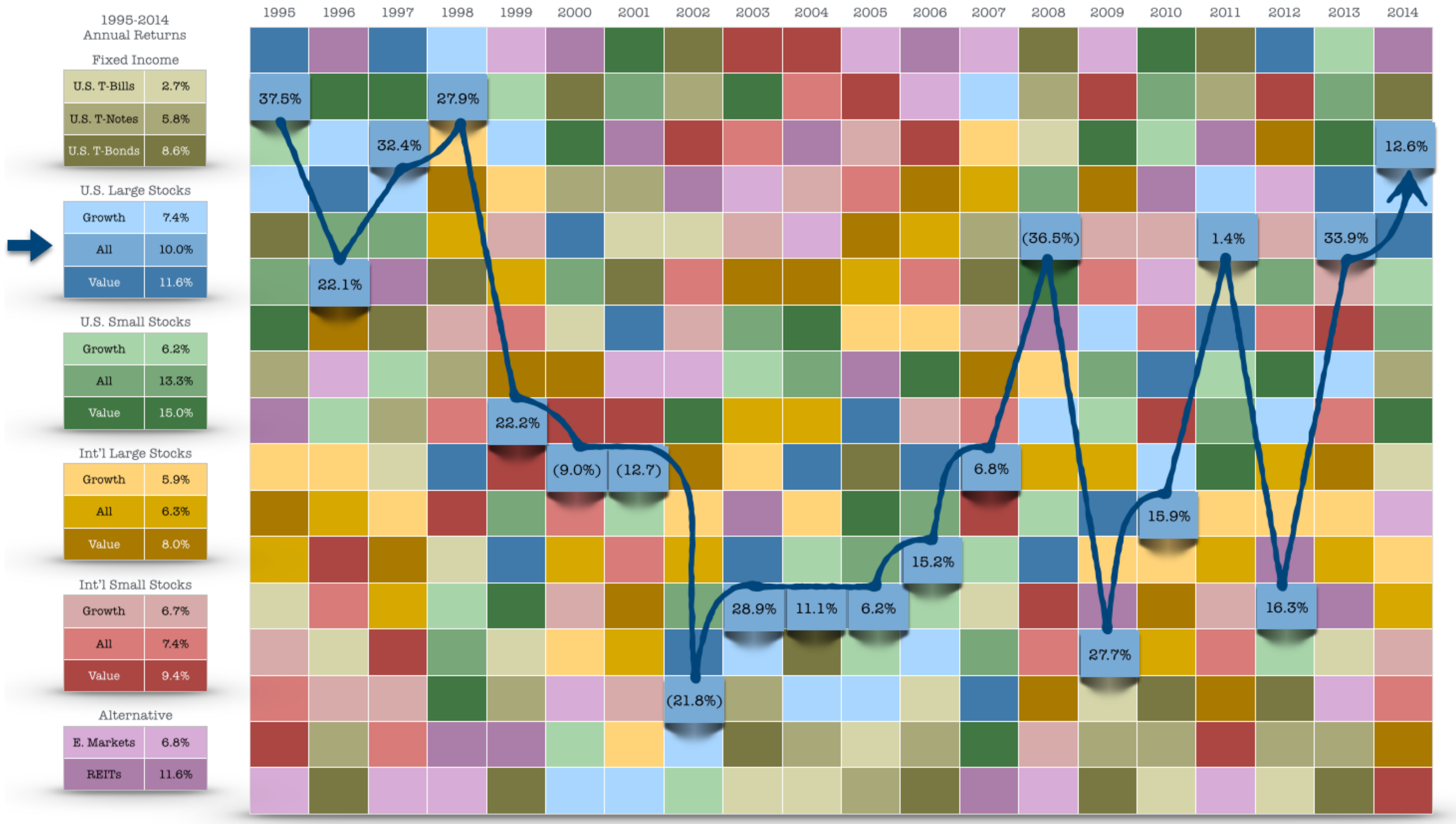
[1]Index-Fund Investing Demands Plan, Not Just Blindfolded Shot, June 11, 1996, the *Wall Street Journal*. Access may require a paid subscription.

[2]Past performance is no guarantee of future returns. See additional disclosures on page 1.



Yearly returns are random.

Asset Class Returns Ranked Highest to Lowest Each Year

Annual Return is 1995-2014. Index Description and (Source): U.S. T-Bills = One-Month US Treasury Bills (Morningstar); U.S. T-Notes = Five-Year US Treasury Notes (Morningstar); U.S. T-Bonds = Long-Term Government Bonds (Morningstar); U.S. Large Stocks, Growth = Dimensional US Large Cap High Price-to-Book Index (Dimensional); U.S. Large Stocks, All = Dimensional US Large Cap Index (Dimensional); U.S. Large Stocks, Value = Dimensional US Large Cap Value Index (Dimensional); U.S. Small Stocks, Growth = Dimensional US Small Cap High Price-to-Book Index (Dimensional); U.S. Small Stocks, All = Dimensional US Small Cap Index (Dimensional); U.S. Small Stocks, Value = Dimensional US Small Cap Value Index (Dimensional); Int'l Large Stocks, Growth = Dimensional International Large Cap Growth Index (Dimensional); Int'l Large Stocks, All = Dimensional International Large Cap Index (Dimensional); Int'l Large Stocks, Value = Dimensional International Large Cap Value Index (Dimensional); Int'l Small Stocks, Growth = Dimensional International Small Cap Growth Index (Dimensional); Int'l Small Stocks, All = Dimensional International Small Cap Index (Dimensional); Int'l Small Stocks, Value = Dimensional International Small Cap Value Index (Dimensional); Alternative, E. Markets = Dimensional Emerging Markets Index; Alternative, REITs = Dow Jones US Select REIT Index (Dow Jones). Asset Class Investing, Inc., does not guarantee the accuracy or completeness of this information. 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 no guarantee of future returns.