EQUIUS ASSETCLASS℠

Modern asset class investing principles, research, and perspectives for long-term investors

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You Shouldn't Wait for an Epiphany

Jeff Troutner, Equius Partners

I recall a meeting several years ago with a group of the very first adopters of the investment strategy we now refer to as asset class investing. The CEO of Dimensional Fund Advisors, David Booth, asked everyone at the table to describe the *moment* when we realized that this was the best course for our clients. When it was my turn to speak, I answered instead with a brief *history* of my experiences in the financial services industry that led to my decision to embrace this new way of investing.

It was ultimately a series of *failures* that forced me to reconsider everything I thought I knew about long-term investing in the public securities markets. And then it took a few years of pushing the proverbial asset class boulder uphill before I became fully convinced that I was on the right course.

In other words, my decision to invest my own and my clients' assets in this way 23 years ago was *far* from an epiphany. I've found that's the case with almost everyone—from clients to other advisors—I've met and continue to meet along the way.

I wish that weren't the case. Because the kind of failure in this business that leads someone to adopt such an unconventional strategy as ours is almost always defined by a final significant loss of investment (usually retirement) capital.

It would be far more rewarding for investors who are currently happy with a traditional investment approach (active management of an individual stock/bond portfolio) to suddenly realize the following truism and immediately adopt an asset class strategy like ours. But that almost never happens.

You can achieve the same—and, more likely, better—investment outcome with much greater diversification, lower costs, greater tax efficiency, and greater certainty, by eliminating your reliance on short-term forecasting and fallible, ultimately mortal stock-picking money managers.

I was reminded of this recently when one of Phil's personal friends hosted a meeting at his home to hear John Tamny present some of the key perspectives from his new book, *Who Needs The Fed?*

The friend was a successful active investment manager for several decades with a very prominent San Francisco firm and still manages his personal wealth in the same way. After the presentation, he took a moment to ask me about the specifics of the Equius investment strategy and was clearly intrigued by how different it was from his.

It occurred to me very quickly that the academic foundation (particularly the Fama/French "Three Factor" research), basic tools (the Dimensional funds), and structural differences from traditional indexing were not very familiar to him.

And why should they be? From what I could tell, his personal experience with active management was essentially a good one. He had not been motivated to consider alternatives. Yet here he was at age 70—maybe more concerned now with preserving a successful personal and financial legacy or maybe just intellectually curious—willing to at least *learn* about a more modern and unconventional approach to long-term investing.

Rest assured, I started my explanation with the *"You can achieve the same…"* line. Surprisingly, he didn't dismiss the statement out of hand. Instead, he seemed intrigued and asked about my and our (Equius's) *history*. We went to dinner and discussed both our histories, and a new relationship was forged. I'm optimistic it will grow over time.

You have no idea how unusual even this initial outcome is. And it makes my point: no summation of asset class investing's features and benefits and no series of articles like we just experienced with *The Wall Street Journal* will compel investors to change course. It takes either a "last straw" financial loss and/or a genuine intellectual curiosity to cause an investor to pursue this knowledge.

A sudden epiphany leading to asset class investing insight is as rare an occurrence as finding *sustainably superior* active management talent.

Time for a Break

Jeff Troutner, Equius Partners

Since my first paper route when I was a young boy, I've always had a job. I worked during my high school years and to pay my way through college. And as soon as I graduated from Indiana University, I couldn't wait to get into the investment industry. For all these years, I can't recall a vacation longer than two weeks. I know many of our clients share a similar experience, albeit in different careers.

For the past 23 years, I've poured my heart, head, capital, and soul into this very unconventional way of viewing the financial markets called asset class investing. I turned 60 in November. It's now time for a short break. Next year I'll be taking a one-year sabbatical from the business to spend more time with my high-school sweetheart and soulmate, Kathy; our four grown children; and our seven (and counting) incredibly engaging grandchildren.

As anyone who knows Equius will attest, I really won't be missed in terms of the day-to-day operation of the business. I am very fortunate to have two excellent business partners in Phil Jonckheer and my son, T.J., and they lead an experienced and dedicated relationship management team that includes Jason Zahorenko, David Wootton, Will Jonckheer, and Judy Arntz. Nick Humphrey, our COO, and Alex Bialeck handle all the operational aspects of our business.

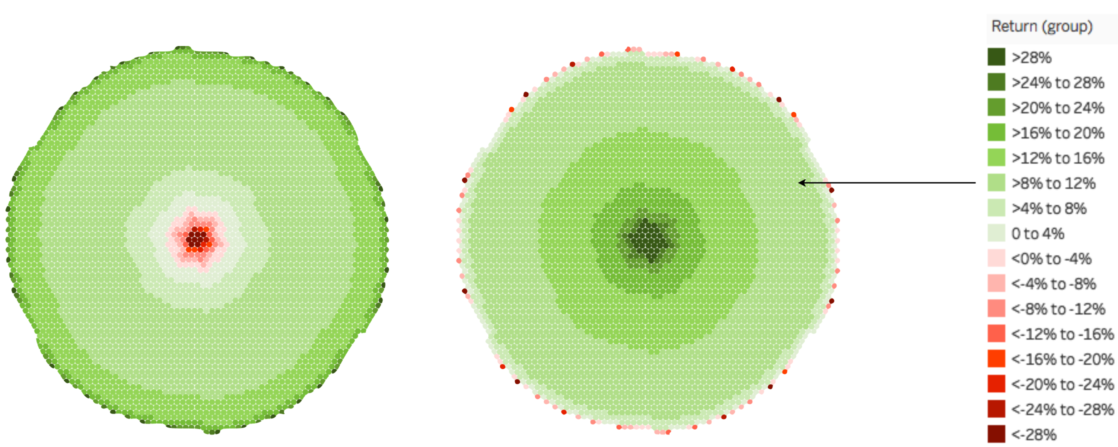
For those interested, our plans include a trip to Japan to visit my cousin and his family (he serves in the U.S. Navy), a trip to the Philippines to visit the family of one of my son-in-laws and do as much scuba diving as I can get away with; a possible trip to either Singapore or Hong Kong to try to inspire a whole new cadre of asset class advisors in Asia, as a favor to my friends at Dimensional; and a two-month adventure across America with Kathy and our dogs, Mickey, and Minnie in a small Airstream trailer. If we're lucky, we might get some of the grandkids and their parents to tag along here and there.

Asset Class will continue to be written by members of the Equius team next year, with the occasional contribution from others outside the firm.

I'm always excited to receive emails from readers of *Asset Class,* so please feel free to drop me a note at jeff@equiuspartners.com if you feel inclined. See you again in 2018.

But before I go…

I want to share a couple of new investing images I've created from the "Stocks reward patience" data. Recall that that particular graphic shows a heat map representation of an 88-year returns matrix for the Dimensional U.S. Total Stock Market index. There are 3,916 different yearly and annualized returns represented by shades of red and green (degrees of negative and positive) for 16 ranges of returns.* Below are those 3,916 heat-mapped returns displayed differently. I call them the "Stock Market Tree Rings." I like the looks of the first one, but it might suggest that stocks are "rotten at the core." Hmm. Maybe the second one represents pessimistic little red beetles trying desperately, but failing, to infect the established, strong stock market tree trunk.



*Includes 88 calendar years starting in 1928 plus every 2, 3, 4, 5…88 compound annual returns starting from any single year.

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