EQUIUS PARTNERS
Adding Balance to Wealth℠

ASSET CLASS℠

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

January 2008

Asset Class Returns

December 31, 2007 (YTD)

	2004	2005	2006	Last 10 yrs.	YTD 2007
Bonds					
One-year	0.9	2.3	4.8	4.1	5.2
Five-Year	2.9	1.7	3.9	5.1	5.2
Intermediate	4.3	1.6	3.6	6.4	9.5
Long-term	7.1	6.6	1.7	7.0	9.2
U.S. stocks					
Large Market	10.7	4.9	15.7	5.8	5.4
Large Value	18.2	10.2	20.2	8.9	-2.8
Small Market	17.9	6.1	16.6	9.0	-3.1
Small Micro	18.4	5.7	16.2	10.6	-5.2
Small Value	25.4	7.8	21.5	11.5	-10.8
Real estate	32.1	13.2	35.3	10.8	-18.7
Int'l stocks					
Large Market	18.8	13.5	24.9	8.6	12.5
Large Value	28.8	15.3	34.1	13.0	10.2
Small Market	30.9	22.0	24.9	14.3	5.6
Small Value	34.8	23.2	28.4	16.2	3.0
Emerg. Mkts.	29.9	29.9	29.2	16.0	36.0

Descriptions of Indexes

Short-term 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 US Large Co. fund
U.S. Large Value	DFA Large Cap Value fund
U.S. Small Micro	DFA US Micro Cap fund
U.S. Small Market	DFA US Small 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

"Last 10 yrs." returns are ended 12/31/07.

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Happy Renewal Year

Phil Jonckheer, Equius Partners

Happiness is a form of courage. ***Holbrook Jackson***

As the holiday season's afterglow fades into the recesses of our memory banks and 2008 starts to unfold, the cacophony of pundit's predictions begins its inevitable crescendo. We've looked hard, but so far we haven't found many stories brimming with optimism. Well, we're still in the camp of well wishers. Here's why:

It's the Process

Andre Agassi, a brilliant tennis player, offered a clue into how we can enjoy a happy new year. He maintains that his motivation while scampering over the world's tennis courts was "never to win…the motivation was the process that I really connected to."

Similarly, what motivates us and is in fact the linchpin of our business is strictly adhering to our process of constructing and managing portfolios. Our intention in imposing our discipline (which is guided by the science of financial economics) is to instill in you the confidence necessary to feel comfortable with the inevitable market gyrations and experience calm in the face of the fear-based media.

Healthy New Year Too

Richard Layard, Britain's leading economist and an expert on unemployment and inequality, as part of his research on happiness, studied people at the age of 20 and how their lives developed. Layard observed that the amount of positive feeling expressed by a person was a significant predictor of how long that person would live. Since we become most anxious about things we can't control, one way to enjoy a happy and healthy new year is to avoid settings where you're being forced to worry about things you can't control – such as where markets are heading.

"Who can say? I suppose I'm as happy as my portfolio will allow me"

How frustrating it must have been for readers of the 2007 year-end Wall Street Journal Report to be greeted with the headline "Dazed and Confused" – the Journal's way of summarizing the current mood of investors. No wonder people are confused: the financial services business encourages people to focus on things they can't control. Isn't it interesting that most active managers

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fail to beat their benchmarks!? Those poor souls are motivated to beat something over which they have no control. It kills them that they can't beat the markets! Instead of confusion, we believe our investment process provides clarity by taking advantage of market fluctuations instead of trying to beat them.

How to Control the Joystick

Our process places us in control of the joystick. Here's how: Your investment plan sets target allocations for asset classes based on what's important to you and your appetite for risk. We fully expect those asset classes to fluctuate. As they do, your portfolio becomes imbalanced, which alters its risk relative to its original asset allocation. To ensure that your portfolio continues to reflect your original objectives and risk profile, we rebalance it back to its targets. By so doing we sell high (trimming those asset classes that have done relatively well) and buy low (topping up those asset classes that haven't done relatively well). Our discipline allows us to take advantage of market movements *irrespective of their direction* and without attempting to predict the future or time the markets.

If this process is not followed and market movements force a change to your original mix of assets, then the likelihood that your portfolio will support what you value can get significantly compromised. For example, if you value passing your wealth onto your heirs, by altering your portfolio's original allocation based on short-term market gyrations, you risk compromising your heir's inheritance.

Risk Not, Get Not

Regardless of how disciplined our process is, it's clear no one likes losses. Professor Daniel Kahneman (the first psychologist to receive the Nobel Prize in Economic Science) reminds us that if we lose a certain amount, that hurts us a lot more than gaining the same amount helps us. Although it's challenging at a fundamental psychological level to take on the chance of a loss, in order to realize long-term growth in our portfolios we must embrace risk. Nehru observed, "The policy of being too cautious is the greatest risk of all."

The media chatter and unpleasant market movements can create the urge to throw risk to the wind and shake the foundation of your carefully constructed plan. In the face of those challenges we remain committed to our process that promotes your long-term goals by embracing the risk needed to realize the returns necessary to achieve what's important to you.

What Makes You Happy?

Adhering to our process affords us the luxury of shifting the discourse to more meaningful reflections such as: How do we gauge the value (i.e., pleasure or health) gained in how and on what you spend your money? Layard postulates that your happiness is less dependent on the absolute value of your estate but rather is more a function of the value of your estate relative to your neighbors/friends. Is that true for you? How much more happiness could you derive from enjoying what you value if you didn't worry about your comparative wealth?

The reality is that we all worry about our wealth and income sometimes. Professors Paul Frijters, Bernard MS van Praag and Alois Stutzer have studied the phenomenon of income addiction, which traps people in loops of increasing income in order to maintain a certain level of happiness. This addiction can lead to increasingly higher living standards and benchmarks that must be maintained in order to sustain one's happiness. It's what Layard called the Hedonic Treadmill. If people do not realize that they are getting used to increasingly larger/fancier material possessions, they begin to overinvest in them at the expense of other experiences that are not subjected to greed, such as time with family and friends, the quality of our leisure and other soul-stirring experiences.

Not unlike those addictive increases in annual income required to maintain one's happiness, one can become addicted to increasing levels of net worth in order to maintain what one thinks is happiness. What can result is an obsession with following movements in a portfolio that defines a new (higher) base with every increase in value and a panic-filled reaction to bail out of the market(s) when the portfolio starts to drop in value. We call this the Wheel of Missed Fortune. Included in what gets missed as this wheel turns is the pursuit of what's important.

To the extent that happiness (or at least its pursuit) is a goal, then it would be important to appreciate what John Stuart Mill observed (and Layard's research supports): people who achieve a sense of meaning in their lives are happier than those who live from one pleasure to the other – and certainly happier than those who live from one concern (market movement) to the other.

Our holiday season begins with Thanksgiving. A critical component of happiness is being grateful for what and where we are – perhaps that's why we cherish that long weekend. Layard identified three other factors that increase happiness: when we're in the company of others, when we can trust one another, and when we're more compassionate toward our community.

As you complete your new year's resolutions, we'd like to work with you to renew your conviction that the balance between asset classes established in your original allocation still makes prudent sense in the context of what you value and to help you ignore the media and Wall Street siren calls that easily can ensnare you in their addictive treadmill of greed and fear.