

Winter 2010

MANAGEMENT

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IT'S TIME TO STOP WHINING ABOUT THE STOCK MARKET'S "LOST DECADE"

You are not alone if you are tired of seeing headlines about the stock market's alleged "lost decade."

Financial journalists and market pundits alike have gone to town with this story: From the end of 1999 through today, the "stock market" has gone nowhere and investors have made virtually nothing on their investments.

It makes for shocking headlines, but the story is, in a word, wrong.

It is based on just one stock index—the Standard & Poor's 500 Index—which stood at 1437 at the end of September 2000. Ten years later, at the end of this past September, it had declined to 1141.

But most investors don't put all of their money into one index. Those who had just a little diversification outside the S&P 500 had positive returns over the last 10 years.

A narrow index

The S&P 500 includes the 500 largest U.S. companies and represents a large part of the U.S. stock market's capitalization.

But it is also a narrow index in the sense that it is dominated by a smaller number of large growth stocks (in the three years leading up to the market crash of 2008, it was dominated by a handful of financial stocks).

It leaves out roughly 60 percent of the world's stock market capitalization, and, of course, does not cover the government and corporate bond markets either.



Investors looking at the Standard & Poor's 500 Index over the last 10 years were very disappointed.

This past decade has been a particularly tough time for the S&P 500, says Craig L. Israelsen, a professor at Brigham Young University who specializes in personal finance.

He says the recent decade was one of only four in which the S&P 500 lost money—two back in the Great Depression, and the third covering the period 1999 through 2008.

But other parts of the investment markets have offered positive returns over the 10 years through Sept. 30.

The bond markets were positive. Depending on the risk and maturity of bonds they held, investors

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earned from 5 percent to almost 7 percent per year on bonds, according to indexes maintained by Barclays Capital.

Small stocks gain

Meanwhile, small U.S. value stocks did much better, returning an average of 7.7 percent per year for the last 10 years. Big foreign stocks, as measured by the MSCI World Index (with U.S. stocks excluded) gained almost 3 percent per year.

Emerging markets stocks soared, returning an average of 13 percent per year, based on the MSCI Emerging Markets Index.

Try a little balance

An American investor who invested in a balanced portfolio that included some foreign and emerging markets stocks, some small U.S. value stocks, and short term bonds from around the world had a decent experience over the decade. A simulated balanced

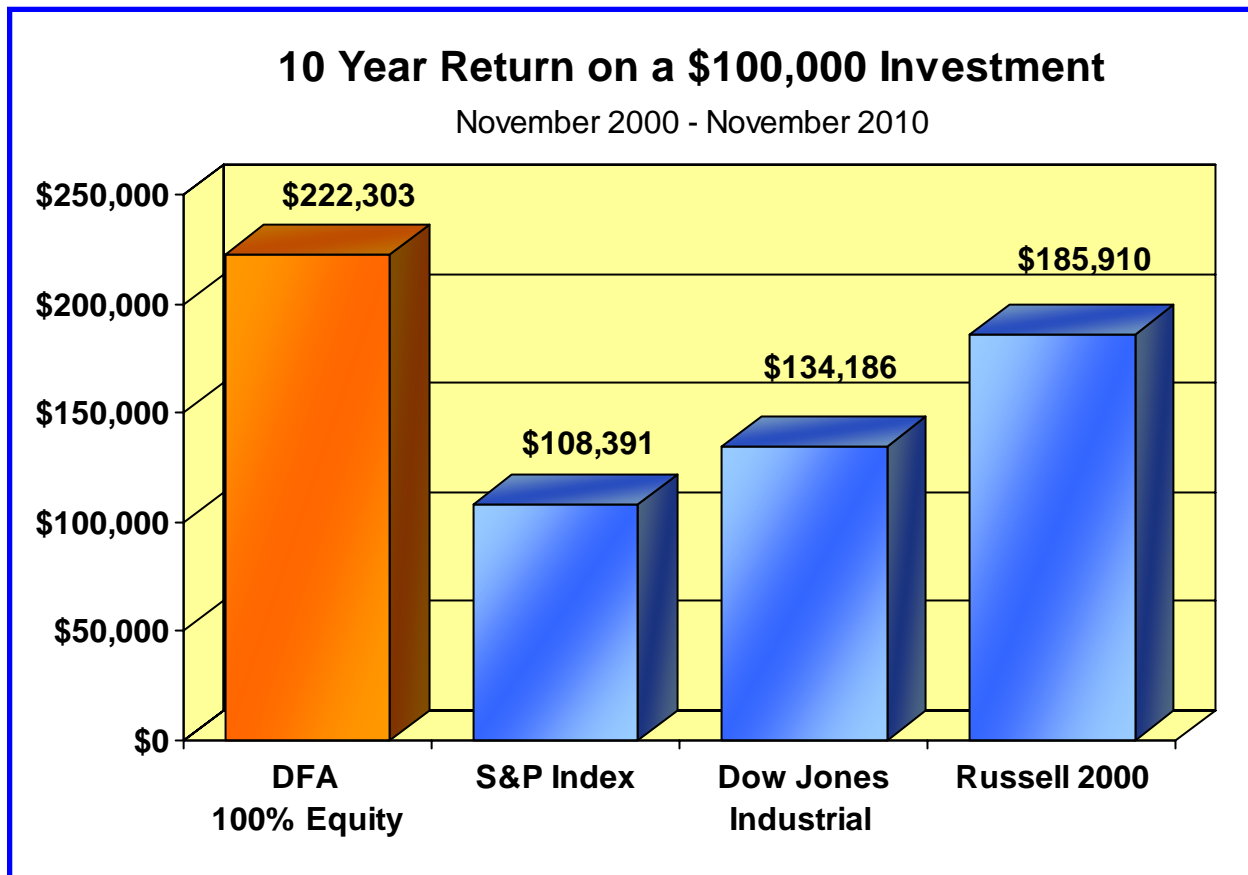
portfolio of 60 percent stocks and 40 percent bonds tracked by Dimensional Fund Advisors showed a 6.8 percent average annual return.

Even better, the investor enjoyed real growth in his portfolio after subtracting the effects of inflation.

Over the 10 years ended in September the Consumer Price Index rose by 2.4 percent per year; the balanced investor earned 4.4 percent per year after inflation.



Balanced portfolios have done well.



Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. For illustrative purposes only. Past performance is not a guarantee of future results and there is always the risk that an investor will lose money. 2010 Morningstar. All Rights Reserved. Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results. The 100% Equity Portfolio includes 4% in DFA Emerging Markets I, 8% in DFA Int'l Small Cap Value I, 4% in DFA Int'l Small Company I, 14% DFA Int'l Value I, 20% DFA US Large Cap Value I, 14.25% in DFA US Large Company I, 10.75% in DFA US Micro Cap I, 25% in DFA US Small Cap Value I. The 100% Equity Portfolio is rebalanced semi-ally with no advisor fee included. Dow Jones data provided by Dow Jones Indexes. Russell data copyright Russell Investment Group 1995-2010, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. Index is not available for direct investment; its performance does not reflect the expenses associated with the management of an actual portfolio.



BUYING AND HOLDING GOLD MAY NOT BE THE BEST WAY TO INVEST

"Gold is not cheap
to own."

Gold has been riding high for several years now in the face of the falling U.S. dollar, struggling stock markets, and financial crises.

An ounce of gold has appreciated nearly 16 percent per year over the past 10 years through July 31, according to statistics compiled by Morningstar Inc., compared to a 1 percent per year loss on U.S. stocks.

Investor interest in the yellow metal has soared as gold has hit one record high after another.

But investing in gold involves some costly hidden traps for the unwary buyer.

A higher tax rate

Many investors probably don't know that profits on gold are taxed at a higher rate than are dividends and capital gains on common stocks.

Precious metals—and investment funds that own them such as the SPDR Gold Trust ETF—are taxed as "collectibles" under federal tax law. The tax rate is 28 percent, compared to just 15 percent for qualified dividends and capital gains on stocks.

Zero income blues

Bonds and real estate investment trusts produce steady interest payments, while stocks pay quarterly cash dividends.

Not so with gold. Not a whit of income goes to holders. If the price isn't going up, the owner is losing out to inflation. Gold owners don't get the benefit of current income to spend or reinvest, thereby compounding returns.

Ownership costs

Gold is not cheap to own. If you hold it directly you have to pay transportation, storage, and security costs. Those same costs are subtracted from your returns on gold funds or ETFs that hold the metal for you.

In this age of ultra-low cost trading fees for stocks and bonds, their ownership costs are small.

Not always a winner

Every time investors get manic over a certain investment they seem to forget that it can go down too. Gold is no exception: after hitting its previous high of \$850 an ounce in 1980, it fell 40 percent in two months and did not bottom out for 20 years, hitting \$280 an ounce in 2000.

Morningstar notes that in the 30 years through July 31, gold returned just 2 percent per year vs. 10.7 percent annually for American stocks.

HAVE STOCKS BECOME MORE VOLATILE?

The tremendous dislocations in the stock market over the last few years have made investors wary of volatility.

They had to contend with huge swings in prices during the September-October market crash of 2008, and then the nearly 1,000 point drop in the Dow during the "flash crash" on May 6.

Of course, the type of volatility investors worry about involves downward movements; they don't seem to worry when the market is jumping higher.

Down days stable

A study by The Mutual Fund Store, an investment firm based in Kansas, shows that the number of trading days the U.S. stock market closed with a loss has not changed much over the years.

Between 1970 and 1989, the market closed down on 48 percent of trading days. From 1990 to 2008, the market closed down on 47 percent of trading days.

And this year through mid-September, the market closed down on just 46 percent of trading days, the firm's research center told *Investment News*, a trade publication.

40-year history

"Perceptions of abnormal volatility are not accurate," the firm reported. "Across a range of measures, the stock market's ups and downs are almost identical to those seen every year for the past 40 years."

The study found that the average year has 120 down days, and that the range between good and bad years is relatively small.

The best year was 1995, when there were 96 down days the worst was 1974 with 146 down days.

One intriguing finding showed that strings of down days are rarer: the market seems to bounce back

more quickly than in the past.

From 1970 through 1989, strings of five straight down days occurred 3 percent of the time, while from 1990 to 2009, such long stretches of decline occurred only 1 percent of the time.

Bigger drops

If anything has changed, it is the magnitude of declines, the study found. One-day declines of 2 percent or more doubled in recent years when compared to the period of 1970 through 1989. "These findings suggest that electronic trading, high-frequency trading, and other changes in stock markets have sped up the market's adjustment," the study said.

Bigger one-day gains have also become more frequent in recent years, the study found.

A PERSPECTIVE ON 2010 AND BEYOND

Nick Murray, a respected author and a financial advisor, summed up the year 2010 and the lessons to be learned as follows from an excerpt from his Client's Corner December, 2010 article, 2010: The Year of Pessimism Punished:

"Regardless of what your investment experience has been since September 2008—and what it was in this frightening and exhausting year of 2010—at least let that experience (and "the impressive weight of historical evidence") suggest to you three things.

*First, that the world has once again stubbornly refused to end. Second, that everyone who has ever bet against the great companies of America and the world has always lost that bet, and sooner than he dreamed possible. And third, that it is only human to feel the fear; the trick—indeed, the ultimate investment strategy—has always been **not to give in to the fear.**"*

Your perspective on your investments should not be a narrow one. It has been compared to looking at the

"weather" experienced on a daily basis to the "climate" of a particular region. You may be well-suited to the "climate" of the region in which you live, but not always like the "weather" that you experience on a daily basis. There may be days of stormy "weather" that you are not happy with, but you know that it will not last forever. You should take a "climate-like" approach to how you view and deal with your investments and your financial future.

No one knows for sure what is going to happen in 2011, but don't let the fear of the unknown and the fear and negativism that those in the media produce on a daily basis derail your investment strategy and your financial goals. Even though there has been a lot of volatility, most of you should have enjoyed watching your portfolios increase in value during 2010. We hope that this growth will continue into 2011.

WE WANT TO TAKE THIS OPPORTUNITY TO WISH YOU
AND YOUR FAMILY A HAPPY AND PROSPEROUS 2011!



Our Basic Tenets

Our objective is to design portfolios using passive asset class funds that maximize investors' returns within their tolerance for risk. Here is what sets us apart:

- ◆ Fee-only investment management
- ◆ A disciplined investment strategy
- ◆ Access to institutional no-load passive asset class funds
- ◆ An academic Nobel Prize-winning investment approach
- ◆ Continued access to academic research
- ◆ A tax-efficient focus with valuable tax- and estate-planning ideas
- ◆ Risk tolerance assessment
- ◆ Periodic portfolio rebalancing
- ◆ Regular communications and state-of-the-art reporting
- ◆ No front-end loads, no back-end loads, no surrender fees, not locked in
- ◆ [MOST IMPORTANT ...
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INTRODUCTIONS—REFERRALS ARE
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