ASPIRIANT

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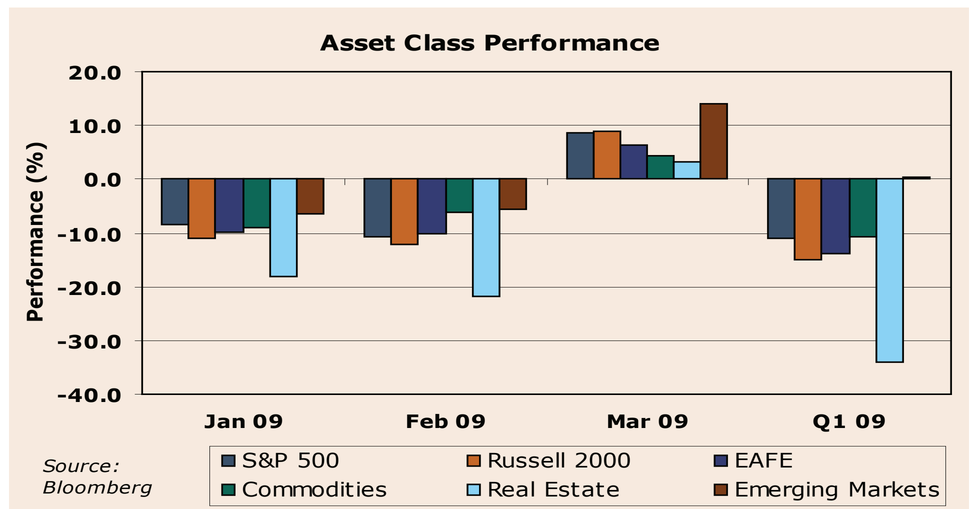
In Like a Lion...Out Like a Lamb

That old phrase about the weather in March could roughly describe the experience of most of our clients in the final month of this quarter. After precipitous declines in both January and February, the domestic stock market reached new lows in early March, foiling the hopes of many that the low reached in late November last year was "the bottom".

The remainder of March, however, saw an almost uninterrupted recovery of values to produce one of the strongest single months in many years. This much better tone continued into the first days of April, as economic reports continue to look somewhat brighter and the G-20 meeting in London seemed to produce some commonality in global response and a continued, if guarded, acceptance of American leadership.



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But, the March come-back was not enough to overcome the severe losses earlier in the quarter. Overall results for the quarter were still very disappointing with most clients' portfolios suffering losses in the high single digits to low double digits. Many portfolios benefited from allocations to fixed income, of course, to soften this blow; and client portfolios with allocations to emerging markets – the only equity asset class that posted positive returns for the quarter – were among the better results.

There was plenty to be afraid of … and there still is. The near collapse of several large banks, here and overseas, major auto companies on the brink of bankruptcy, continuing job losses, real estate value declines, and still flagging consumer confidence in the early months of this year combined to seriously depress investor confidence. Despite the encouraging recent performance, market measures may still not yet have reached their low points and a recovery in the fundamental world-wide economy is almost certainly at least several months away.

Many also fear that the size and character of governmental involvement in the economy will prove harmful to a robust private enterprise system. Populist intrusion on business and trade (punitive taxation of AIG bonuses, firing of CEO's, protectionist measures in stimulus legislation) could mix with the inflationary pressures of very substantial fiscal and monetary actions to create a very weak economic recovery at best. Maybe worse, the apparently random experimentation of several government steps inspired little confidence that those very costly actions would even be effective to launch a recovery at all.

Why a Rebound?

Broad investment market values don't just keep falling to zero. As Greg Schick and Bob Wagman discuss below, markets reflect actual tangible assets and real economic activity: millions of businesses and billions of workers around the world striving to produce true economic value. At some point, all the bad news does as much damage to the pricing of these assets and enterprises as it can.

But, more than simply a possible exhaustion of the downward pressures, there are positive signs of hope. Stimulus legislation (like it or not) is about to pump many billions into consumers' hands. The Treasury's plan to form a public/private collaboration to purchase large amounts of toxic assets should begin to finally unlock credit markets; and the Federal Reserve's plan to purchase long-term Treasury securities will depress long-term interest rates, further facilitating a housing recovery by keeping mortgage rates low. Housing starts and home sales statistics are already reflecting modest increases, and consumer spending is up. Manufacturing output in China and US factory orders are up. Maybe most important, one can detect a stark shift in media and political rhetoric. Many commentators are now publicly admitting optimism instead of the former constant drumbeat of gloom.

What's Next?

We wish we could be sure. We can only be confident of what is *likely*. This recent rebound may be another false start, with more losses in value ahead. But, someday, and it is increasingly likely that day will be sooner rather than later, markets will convincingly recover, reflecting a genuine recovery of the underlying world economy. As Lauren Pressman illustrates in the article to follow, a full recovery of portfolio values as a consequence is a very good bet… *eventually*.

In the meantime, we will continue to work closely with clients to do our best to match their financial strategies and their investment portfolios to their needs for investment return and their newly tested tolerance for risk. In our conversations to date, fewer than 10% of our clients have actually decided to reduce significantly their risk exposures, by adopting larger fixed income allocations or, in a few cases, by deciding to stand completely on the sidelines by "cashing out" their investments. The other 90% plus have carefully, and in some cases, painfully, decided to remain on their existing strategic path in the expectation of eventual recoveries.

But none of our clients have escaped a certain level of emotional trauma over the losses of the last 18 months. Our role as comprehensive financial advisors is to connect with our clients on that emotional plane (and believe me, we **are** sympathetic; our firm's revenues and our personal portfolios have suffered similarly deep declines), but still perform our role as dispassionate professionals to help our clients to make decisions on the intellectual plane as much as possible. This applies on the re-entry decision as much as on any exit. For those clients who have temporarily dialed-down their risk, and, especially, for those who have temporarily left the exercise entirely, we are developing plans for a structured return … both as to when it starts and how fast it's completed … so that the resulting investment exposures can themselves be durable going forward from here.

In all cases, we are committed to remain a reliable and resourceful partner for our clients in the ongoing optimization of their overall finances – regarding investment portfolios and otherwise – in service of their specific goals.

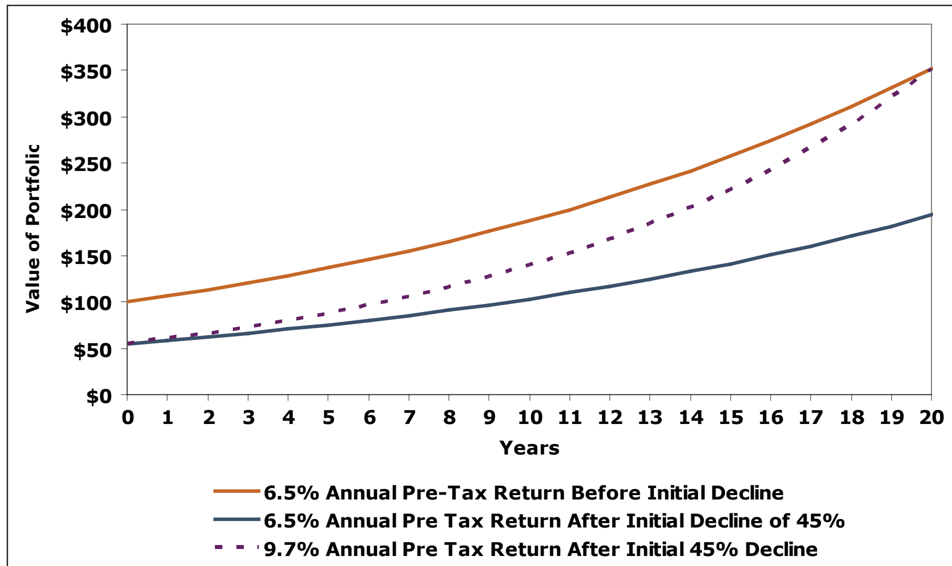
Tim Kochis
Editor

"Will I Ever Get It Back?!"

The dramatic plunge in equity investment values across asset classes that began in mid-2008 and continued through much of the first quarter of 2009 has had a devastating effect on investment portfolios. During the last client conference call that Aspiriant hosted on February 27th, we addressed questions about near term prospects for the market and the economy. During that call, Jason Thomas, Aspiriant's Chief Investment Officer, also made a brief mention of the dimensions of market performance that would be required in order to achieve the same wealth goals expressed by our clients **prior** to the precipitous declines. It is difficult to avert our immediate attention from the volatility, fear, and glimmers of hope that characterize our current market and economy. Still, as our clients' portfolios are built to endure for the long term, we believe a deeper discussion of the impact of a range of recovery scenarios is important for developing confident and actionable expectations about the future.

Assume a portfolio that was initially worth $100 and was expected to grow 6.5% annually, on a pre-tax, pre-inflation basis, for 20 years. It would be worth $352 at the end of those 20 years. [The 6.5% represents Aspiriant's estimate of the 30th percentile return (i.e. a client has a 70% probability of achieving such a return or better but still a 30% chance of falling short) and is approximately equivalent to a 5.0% after tax return]. However, if the portfolio were to sustain a 45% decline in value in the first year and then would continue to grow 6.5% annually for 20 years, the portfolio would then be worth only $194 dollars at the end of the timeframe in pre-tax dollars. After sustaining the initial decline, in order for the portfolio to achieve the same initially expected value of $352 at the end of the 20 years, the portfolio would now have to grow at a 9.7% annual rate.

We recognize that although portfolios are constructed with a long-term perspective, the specific time frames for reaching one's unique goals, of course, will differ from client to client. Further, the declines sustained by individual portfolios range as well depending on asset allocation. The following chart below describes the rate of return that would be required to achieve an original goal of a 6.5% annual pre-tax return assuming different levels of initial decline (as indicated in the far left column) and different return horizons (as indicated across the top row).



Annualized Rate of Return Required to Achieve Original Goal Over Different Time Periods vs. Amount of 1st year portfolio decline

Decline in Portfolio Value at Start of Analysis Period	Years from Start of Analysis Period					
	5	**7**	**10**	**15**	**20**	**30**
-20%	11.4%	9.9%	8.9%	8.1%	7.7%	7.3%
-35%	16.1%	13.3%	11.2%	9.6%	8.8%	8.0%
-50%	22.3%	17.6%	14.1%	11.5%	10.3%	9.0%
-65%	31.4%	23.7%	18.3%	14.2%	12.2%	10.3%

How reasonable is it to expect that a well-diversified portfolio might return an average of 9.7% or better over the next 20 years? The chart below show the maximum, median, and minimum value of 1, 5, 10, 15, and 20-year rolling returns for small capitalization domestic stocks, the S&P 500, long term Treasury bonds, and short term Treasury bills calculated monthly beginning in 1950 through the end of 2008.

Range of Returns for Various Holding Periods
1950 - December 2008
Compound Annual Rates

S&P 500	**1 yr**	**5 yr**	**10 yr**	**15 yr**	**20 yr**
Maximum Value	61.2%	29.6%	19.5%	19.7%	18.3%
Median	13.2%	11.8%	11.6%	11.2%	11.4%
Minimum Value	-38.9%	-4.2%	-1.4%	4.1%	6.4%

Small Capitalization Stocks	**1 yr**	**5 yr**	**10 yr**	**15 yr**	**20 yr**
Maximum Value	97.5%	39.7%	27.4%	22.6%	19.2%
Median	14.9%	13.2%	13.1%	13.3%	13.5%
Minimum Value	-45.9%	-12.3%	3.0%	5.7%	7.8%

Long Term Treasury Bonds	**1 yr**	**5 yr**	**10 yr**	**15 yr**	**20 yr**
Maximum Value	54.5%	24.1%	16.1%	13.7%	12.8%
Median	4.6%	6.3%	6.7%	8.1%	8.4%
Minimum Value	-13.4%	-2.6%	0.4%	0.5%	0.8%

90 Day Treasury Bills	**1 yr**	**5 yr**	**10 yr**	**15 yr**	**20 yr**
Maximum Value	14.6%	11.0%	9.1%	8.2%	7.6%
Median	4.8%	5.0%	5.2%	5.4%	6.2%
Minimum Value	0.8%	1.4%	1.9%	2.2%	2.9%

Source: Crandall, Pierce & Company

For example, the median 20-year rolling return for the S&P 500 over the past nearly sixty years of data has been 11.4%, with a minimum 20-year return of 6.4% and the maximum of 18.3%.

Over the same nearly sixty-year total period, the median 90-day Treasury bill return for rolling 20-year periods has been 6.2%. This reflects a much higher average interest rate environment than we are currently experiencing. Nevertheless, just as 90-day Treasury bill rates increased from .8% in mid-2003 to 4.9% in mid-2007, we expect that, over the long term, interest rates will increase.

So, some combination of just these two simple portfolio components (large cap domestic stocks and bonds) should be able to achieve a complete recovery to target values…if your time perspective for your objectives and your patience can hold for twenty years or more. A more aggressive asset allocation could recover even sooner; and we believe our efforts to build optimal asset allocations, identify effective implementation vehicles, and manage expenses and costs will maximize the potential to recover values…and then some. But, if your actual time frame is much shorter, then a full recovery remains at significant risk.

Lauren Pressman
Director - Investment Research

The "New" Aspiriant.com

Please visit our new website, launched earlier this year. Specifically, take a look at a section of the website where you can review past client presentations and conference calls. If you missed one or would like to listen to the presentation again, you can do so by going to Events under the Newsroom section at Aspiriant.com (www.aspiriant.com/newsroom_e.html.) You can also find previous editions of Insight and Investment and Market Perspectives under Library (www.aspiriant.com/library.html.)

We plan to continue to enhance the website's design and navigation over time, so please let us know if you have any suggestions.

DFA – Has the Ivory Tower Collapsed?

The manager results table of this and recent issues of *Insight* show that a number of Dimensional Fund Advisor (DFA) funds have underperformed their relevant benchmarks, in some cases by a material amount, over the last 1–3 years. In response, some clients have justifiably asked whether the DFA funds or separately managed accounts are still an appropriate portfolio component. This presents a good opportunity to remind our clients of our beliefs regarding the role of public equities in clients' investment portfolios generally and, specifically, DFA's* role in implementing the public equity allocations.

* DFA and the securities it offers are just a component of our currently recommended managers and securities used in portfolios. We will provide a complete list of recommended securities upon request. DFA's funds or accounts are available only through institutional channels such as Aspiriant.

AIG Property Insurance Update

We have all watched the spectacle at AIG with a combination of horror, anger, and awe at how an enterprise so large and apparently stable could come unraveled so quickly, and with so much collateral damage. While the press regularly paints AIG as a singular entity, it is, in fact, an amalgamation of about 400 separate business units, primarily in finance, asset management, and insurance. AIG's collapse was caused by activity at just one of those units, the now-infamous AIG Financial Products group, which created and sold credit default swaps to financial institutions around the world.

A number of Aspiriant clients have homeowner's, automobile, and liability insurance provided by AIG's Private Client Group (PCG) subsidiary, so we have spent a lot of time over the last 6 months understanding the risks to the PCG's ongoing viability. Our research, which included meetings with the PCG's president, Charles Williamson, and with several third-party property insurance experts, concluded that PCG is in strong shape financially and is protected from the direct financial and legal woes of its parent.

PCG is very well capitalized, with $90 billion of conservatively-invested assets, of which $26 billion is "policyholder surplus" (i.e., the difference between assets and expected claims), the largest surplus of any property insurance company in the world. By law, this capital cannot be touched by the parent company without regulatory approval; moreover, PCG is immune from the parent company's bankruptcy proceedings. PCG's reinsurance companies serve as an additional check on PCG's own estimates of their exposures and their financial stability. PCG successfully renewed their 2009 reinsurance contracts at a discount and/or the same rate as their 2008 contracts.

PCG appears to be operating nearly independently of the corporate parent. And while the business continues to experience robust growth and little turnover among clients, employees and affiliated brokers, the very fact that they are associated with AIG poses some long-term problems for PCG. The stigma of the corporate parent and the compensation restrictions being placed on AIG could result in the loss of clients and employees over time.

Recognizing these issues, AIG recently announced plans to spin off PCG into a separate insurance holding company, to be called AIU Holdings, Inc. The new company will have a separate board of directors, contain the management team from PCG, and have a brand distinct from AIG. The establishment of AIU Holdings, Inc. will assist AIG in preparing for the future sale of the business.

In light of this positive development, we continue to recommend that clients who already have AIG PCG insurance remain with PCG. Moving to another similar carrier (e.g., Chubb or Fireman's Fund) would likely involve a rate increase and/or a poorer underwriting fit. That said, if you are uncomfortable with your PCG coverage, or would simply prefer to reassess your coverage options, your Aspiriant client service team can coordinate that for you.

You may also want to reference our recent article, "Unconventional Wisdom: Uniting Active and Passive Management", which provides some important background on our investment approach, details the perils of traditional active management, and discusses how Aspiriant applies unconventional active management to clients' portfolios.

First principles

Before addressing the DFA funds specifically, it's important to be reminded of some of the key philosophies underlying the implementation of Aspiriant portfolios.

The real economy is the source of investment returns. The vast majority of investment returns are created not through financial engineering, derivatives, arbitrage, or leverage, but through the fundamentals of profitable economic activity. As investors, we can participate in that economic activity at various points throughout the value creation process – the production and sale of raw materials (commodities, such as oil and industrial metals), real estate (office buildings, factories, and shopping malls), debt financing (bonds), and equity financing, or ownership of the enterprise (stocks). Each plays a specific and important role somewhere in the value chain and earns a return over time for the use of investors' capital.

Risk is priced. To entice investors to put capital at risk, investments must offer a return opportunity that is commensurate with the risk assumed. While you might loan money to Microsoft for the next 2 years at a rate of, say, 5%, you'd probably demand a much higher interest rate to extend a loan today to Chrysler or GM. Likewise with equities, owners of riskier enterprises must, in the aggregate and over time, be rewarded for the additional risk they've borne with higher investment returns. You might be comfortable buying Microsoft stock with the expectation of a 10% annualized return on your capital, but you'd have to expect a much higher return to entice you to purchase stock of a distressed company like Chrysler or Citibank or a small company that you've never heard of.

Markets work. In light of recent events, it might be difficult to convince you that markets actually do work! The current market environment is, in fact, an excellent example of how markets work to price risk. Big, formerly-stable companies like the domestic auto makers, many large banks, and even diversified industrial enterprises like General Electric, have seen their share prices plunge by over 90% as their perceived (and maybe actual) risk have increased. This is the capital market at work, identifying newly risky companies and adjusting their prices (downward) to provide a robust future return opportunity for those investors who accept the suddenly-increased (at least perceived) risk of investing in those companies. The market doesn't get it right immediately or at all times, but over time, free capital markets do an excellent job pricing risk.

A (very) brief history of financial economics

In 1934, with the Great Depression as a backdrop, Columbia Business School professors Benjamin Graham and David Dodd wrote *Security Analysis*, which enumerated many examples of the stock market's tendency to irrationally under-price out-of-favor companies which, in the real world, were generating strong earnings and had large (often dominant) market positions and other substantial competitive advantages. They established the idea that a company's **value** and its **price** were not necessarily the same and, when a company's stock price is much less than its intrinsic value, outsized return opportunities exist.

The Graham and Dodd approach remained the dominant approach to investing for decades until Harry Markowitz's 1958 Modern Portfolio Theory uncovered the benefits of diversification across asset classes. Markowitz's theory was further refined by Stanford professor William Sharpe, who in 1964 developed the Capital Asset Pricing Model (CAPM), which postulates that one factor – an asset's sensitivity to market risk – determines its price. Sharpe further asserted that the CAPM explains over 80% of a diversified portfolio's return.

Finally, in 1993, University of Chicago professor Eugene Fama and Dartmouth professor Ken French proposed the Three Factor Model, which agreed with the CAPM's theory that greater exposure to the market increases return; however, Fama and French identified two additional factors that reliably and predictably explain stock performance – the "value effect" and the "size effect." The Fama/French Three Factor Model explains, many believe, over 90% of a diversified portfolio's return.

The size and value effects

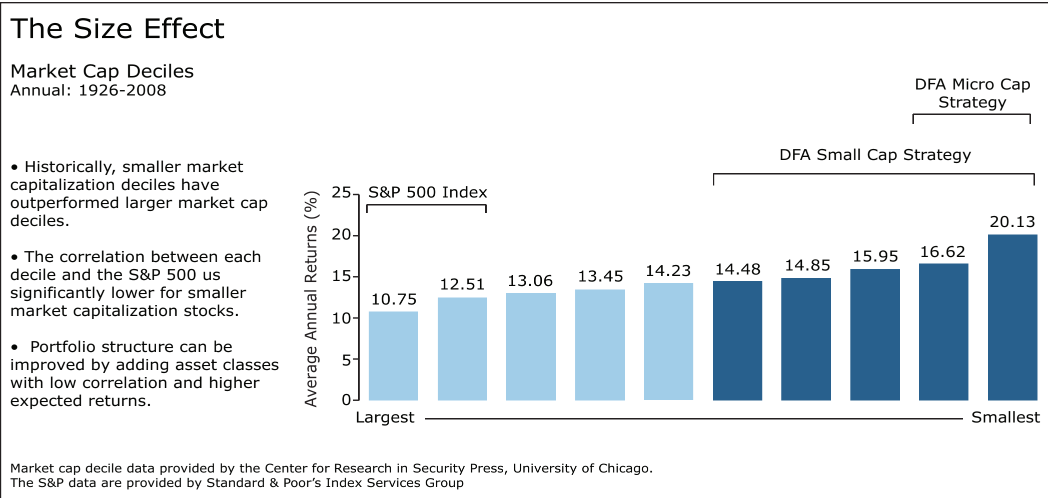
Fama and French demonstrated that the size and value effects exist. Just as importantly, they hypothesized the reason these effects exist, why they are durable, and how they may predict excess equity returns over time. Simply put, stocks of small companies and "value" (i.e., distressed) companies are, in fact, riskier than stocks of large companies with strong earnings and balance sheets. As discussed above, investors quite logically demand higher returns from these riskier small and distressed companies and so, in the aggregate, those companies *must* provide the expectation of higher returns to attract capital.

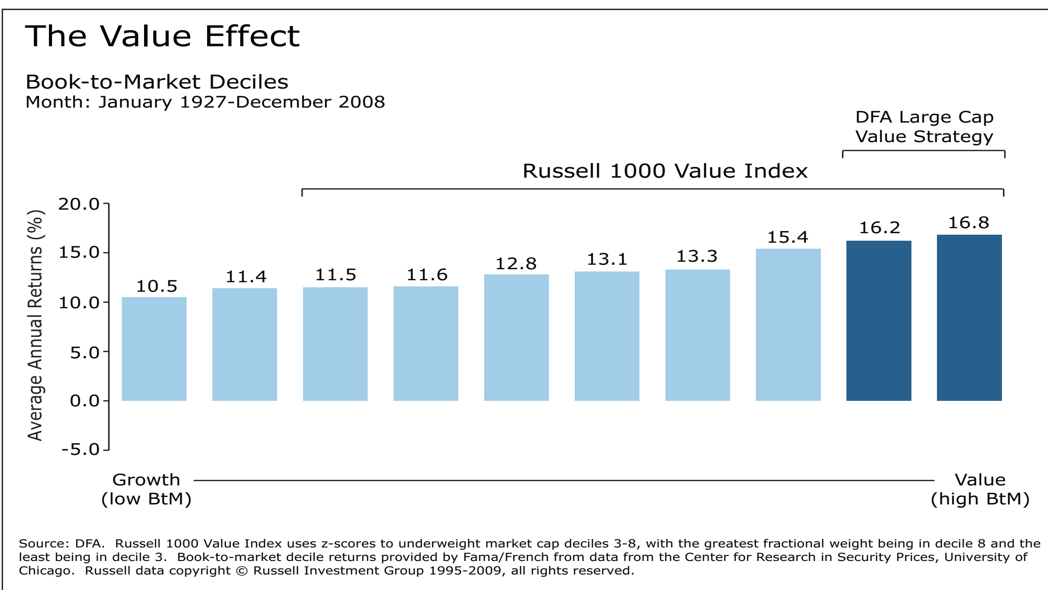
How does the market ensure that these higher expected returns actually happen? Let's say you would invest in Microsoft or ExxonMobil with the expectation of a 10% annual return on your capital. But would you invest in Citibank or GM today with the expectation of just a 10% annual return? Probably not. What about tiny companies (selected at random from a DFA fund) like Werner Enterprises, Skyworks Solutions or Zoran Corporation? You'd probably have to expect high returns to be enticed to invest in them, too. The global equity markets, incorporating the aggregate judgments of millions of investors worldwide, adjust the stock prices of the riskiest companies to a sufficiently low price so that today's investors can reasonably expect high future returns to compensate them for taking the risk.

In fact, the equity markets are effectively giant risk pricing engines, constantly adjusting prices of all investments so that investors' *future* returns are commensurate with the *current* risk taken. This price discovery process can be very ugly at times, and it is clearly imprecise and imperfect, often being heavily influenced by emotion, politics, and other outside factors. Observing this, Benjamin Graham famously said that, "In the short run the market is a voting machine. In the long run it's a weighing machine."

The Size Effect chart, below, separates US equities into ten size deciles (each with the same aggregate market capitalization), clearly demonstrates the size effect. Since 1926 (when reliable and consistent data begins) through 2008, the largest 10% of companies have generated an average annual return of 10.75%. The second decile has generated a 12.51% average annual return over the same period, and so on down the market capitalization spectrum, with each smaller decile generating a greater return than the larger decile before it. The smallest 10% of companies have generated an eye-popping 20.13% average annual return.

The Value Effect chart illustrates the same idea, but for companies' health, not size, as measured by "book-to-market ratio", one measure of the market's perception of their





health[1]. Decile 1, comprised of the 10% of companies with the lowest book-to-market ratios (i.e., "growth" companies), have delivered materially lower returns than "value" stocks, companies where the market price has been beaten too far down relative to the value of the company's assets (i.e., a high book-to-market ratio). In other words, investors overpay for growth and punish distress too harshly. Of course, this isn't a new idea -- it's the very concept that Graham and Dodd identified 75 years ago in *Security Analysis* -- Fama and French just broadened it across equities generally.

While Graham and Dodd were right to notice the "value effect", we think they were incorrect to characterize it as irrational. In fact, distressed companies' low stock prices maybe an entirely rational response to those companies' increased risk. The size and value effects are not random or ephemeral variations or statistical flukes, but rather a completely rational (and thus durable) reflection of the greater risk of small and distressed companies. Consequently, until investors stop demanding

1 Book-to-market ratio is calculated by dividing the book value of a company (i.e., the accounting valuation of a company's assets, such as factories, intellectual property, brands, etc.) by the market price of the company. Companies that have experienced strong recent stock price appreciation will generally have low book-to-market ratios (the market price in the denominator is high) compared to companies that have suffered stock price stagnation or declines.

Book value strikes some people as being an archaic measure of value, particularly in a largely service-based economy, where companies' largest assets are often intangible. DFA's research shows that other measures of value (for example, price/earnings ratio) are also an effective measure of value, but they prefer book-to-market because it is more stable over time than many other measures.

Lowering Your Property Taxes

California's Proposition 8 was passed by California voters in 1978, allowing a temporary reduction in assessed value when real property suffers a "decline-in-value". A "decline-in-value" has occurred if the market value of the property as of January 1, 2009 is lower than its assessed value (generally the property's purchase price plus automatic 2% per year and other legislative adjustments.) The most recent assessed value of any real property that you own will be reflected on your 2008 property tax statement.

Any adjustment to the assessed value, calculated using the market value of the real property as of January 1, 2009, is prospective only and will be reflected on your 2009 annual tax bill mailed in September 2009. It is not possible to retroactively adjust your 2008 property taxes (including the installment due April 10, 2009) for any such decline in value.

A Proposition 8 reduction is a temporary reduction that lasts one year and does not change the assessed value of your real property. If property values remained depressed, you may need to request reassessment in subsequent years as well.

You may file a Decline in Value Reassessment Application form to trigger a Proposition 8 review of the 2009 Current Assessed Value of your property. Applicable forms are available at your county assessor's web site and there is no charge for the review. In addition, most counties in California are conducting *automatic* reassessments of home values. In all cases, you will be notified by the county assessor of any reduction in the current assessed value of your real property as a result of your application or as a result of any automatic reassessment program.

If you disagree with the county assessor's reduction to the current assessed value, you may file an appeal with the local appeals board to have the property re-valued again.

Meanwhile, be sure to pay your property taxes on time during any review or appeals period. Each county has its own reassessment form and filing period, as well as its own appeal process and filing period. See the attached spreadsheet for forms, contact information and deadlines specific to your county.

Note: *Various private companies are sending mailings to property owners offering their services to pursue a reduction in their property taxes. These companies may charge hundreds of dollars to file for a reduction in value on behalf of the property owner. Some companies are even imposing late fees if the application is received after an arbitrary deadline. Solicitations from private companies offering to pursue a reduction in property taxes must clearly indicate that they are not a government agency and that their services are not approved or endorsed by any government agency. Failure to provide such notice is a violation of California law.*

Many of these services are scams and, except in unusual cases, there is no reason to pay for a review that is a relatively simple process and is provided by your county free of charge.

more return for taking more risk, these effects will persist[2].

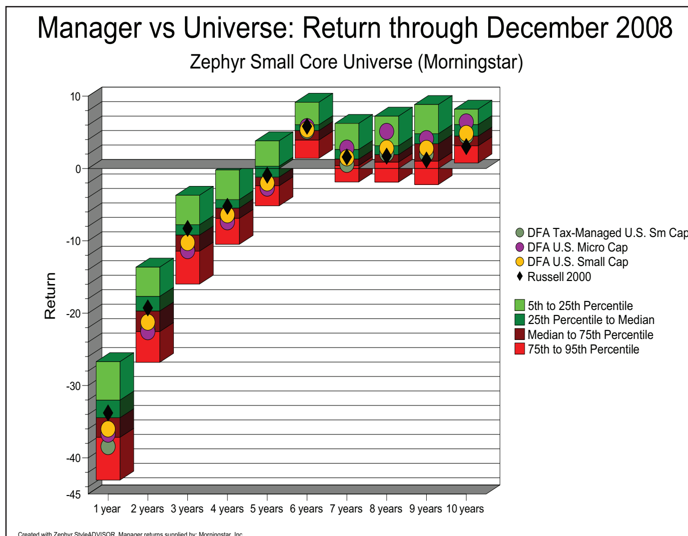
Putting theory to work

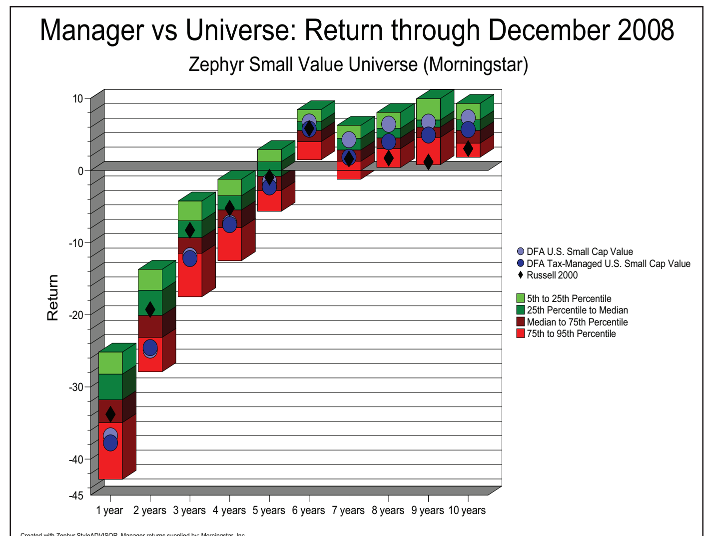
The Fama and French work forms the intellectual framework for Dimensional Fund Advisors[3]. DFA structures investment portfolios to deliver very potent doses of the size and value effects by targeting smaller capitalization and higher book-to-market companies than standard indexes and most active managers. For example, the median market capitalization of the DFA US Micro Cap Fund is $95 million, versus $322 million for the Russell 2000 index. Thus, DFA delivers more exposure to the size effect. Likewise, stocks held by the DFA US Large Cap Value Fund have an average book-to-market ratio of 1.27, a much higher exposure to the value effect than the 0.66 average of the Russell 1000 index or even the 0.90 average of the Russell 1000 Value index.

The two preceeding charts divide US equities into the ten size and book-to-market deciles and illustrate the deciles in which three DFA funds invest. Note the far more focused range of holdings for the DFA funds compared to their benchmarks… evidence of their size and value tilts. Within the specified range for each fund, DFA does almost no "fundamental" analysis (e.g., visiting companies, speaking with management, forecasting profit growth); rather, after applying some basic

2 Not all risks are priced. Some risks, such as speculation on individual companies and market timing, have no expected return associated with them. Mutual fund and separate account managers who actively select stocks in an effort to outsmart the market will often attribute their outperformance to their superior stock selection. However, if an active manager is indexed to, say, the S&P 500 and outperforms the index simply by owning companies that are smaller and more distressed than the S&P 500 as a whole, then the active manager hasn't really added value, as one could have achieved the same result, for much lower cost, with a combination of inexpensive index funds or DFA funds targeting small and/or value companies. True stock picking skill is evident only when the manager has achieved higher returns by means other than simply taking on additional priced risk… something that very few managers have done over time.

3 Notably, Fama and French still actively consult with DFA and are co-owners and board members. DFA's other owners and board members include many luminaries in the field of financial economics, including Roger Ibbotson, Rex Sinquefield, David Booth and Nobel Laureates Merton Miller (deceased) and Myron Scholes.





screens for liquidity and financial viability, DFA will purchase just about any company within the desired range, (thus, a very large number of companies) reasoning that the market would have assigned a price to the company that is commensurate with its risk[4].

One would expect that DFA funds, with their stronger exposures to the size and value effects, compare very favorably, over time, to funds investing in similar companies. And, in fact, that's exactly what the data shows. The Small Core Universe chart, above, shows the annualized returns, over periods of 1-10 years, of three DFA funds we often use to implement the small cap blend exposure in clients' portfolios. The returns of the three DFA funds (represented by the colored dots) and the Russell 2000 small cap benchmark (the black diamond) are arrayed against a vertical bar representing the performance range of the middle 90% of small cap managers, divided into quartiles. (The top 5% and bottom 5% of results exist, respectively, above and below the bars.)

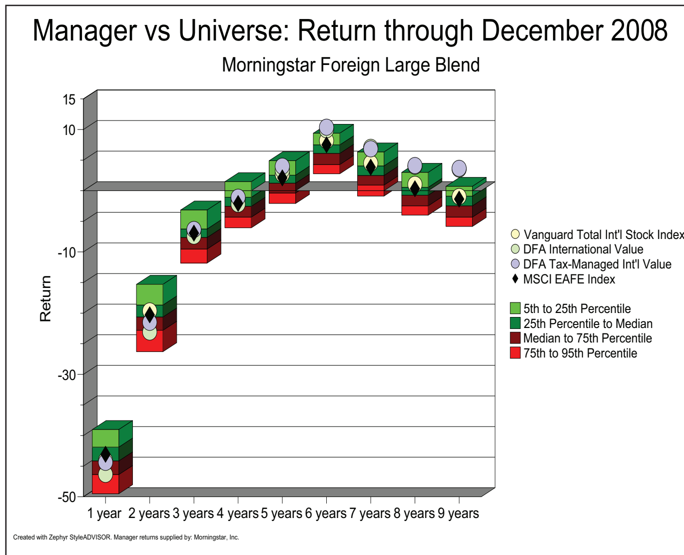
Reading the chart from the right, the three DFA funds all clearly outperform both the benchmark and the majority of their peers over 8+ years, as the impact of their purer exposure to the size effect adds up over time. DFA's exceptionally low management fees also help. Likewise, the Small Value Universe chart, illustrating the small cap value asset class, shows very strong performance of the DFA funds over time relative to peers, owing to DFA's relatively stronger value orientation[5].

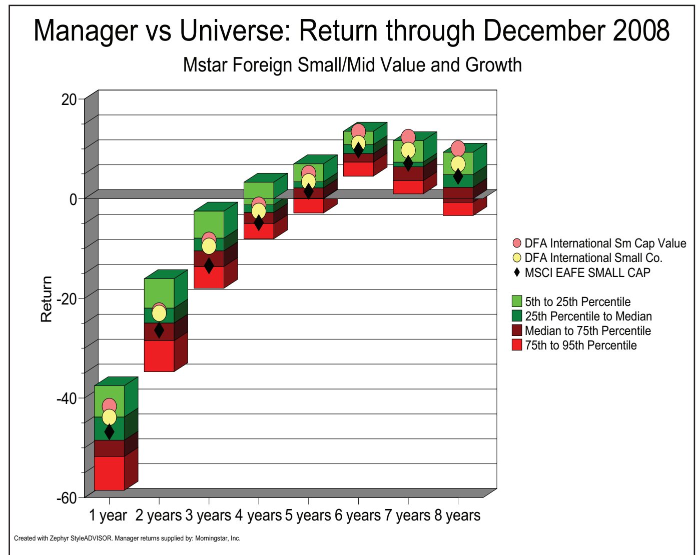
In the recent past, however, the DFA funds compare less well against their benchmarks and peers. Importantly, given the recent severe difficulties for equities generally, this is *not* surprising. Because the DFA funds overweight "value" companies (including the financial sector) and smaller companies, DFA funds generally outperform the index and most peers when investors are willing to take risk with smaller companies and those perceived to be weak, and underperform when investors are not so willing to take on these risks. As the charts demonstrate, the cumulative effect of DFA's size and value exposures has resulted in **material long-term outperformance; however, the price of that long-term outperformance is greater near-term volatility due to the portfolio tilts.**

Perhaps ironically, we view DFA's recent underperformance as a sign that their strategy is working. Their funds have generally underperformed *largely because* they continue to target pure size and value exposures in a very consistent, disciplined fashion. This is exactly what we want them to do, with the confidence that we will be amply rewarded over time. Of course, we don't simply take it on faith that the DFA funds… or, for that matter, any manager… are properly executing their strategy. We maintain a very close dialogue with senior managers, strategists, and executives at DFA, and receive from them very detailed quarterly attribution analyses

4 While targeting the size and value effects are the most notable and distinguishing elements of DFA's approach, their screening process also incorporates a host of other subsidiary factors including, for example, avoiding real estate investment trusts (a separate asset class) and utilities (which are so heavily regulated that non-market forces heavily influence their stock prices). Moreover, while DFA's value-oriented funds invest in distressed equities, they avoid stocks that are so distressed that failure is a high probability (e.g., companies in bankruptcy proceedings or companies that don't meet certain minimum exchange listing and liquidity requirements).

5 The DFA funds' performance would appear even better if the data set included separate account managers, were adjusted for survivorship bias (i.e., if closed and merged funds were included), and were adjusted for taxes.





so that we understand the exact causes of return variation in each fund.

Overseas Exposures

The charts above demonstrate that the size and value effects exist in overseas equities, too. The Foreign Large Blend chart plots three funds we use to invest in large company stocks overseas. The Vanguard Total International Stock Index has generated the return of the benchmark over time (which is what we expect of an index fund); however, the DFA funds, which target value equities overseas, have trounced the index and their peers, landing in the top 5% of managers for all periods greater than 5 years. Again, recent fund performance lags, reflecting these funds' greater volatility.

The final chart illustrates overseas small companies, where two DFA funds we use target the value and size effects. Not surprisingly, their exposure to the size and value effects has resulted in substantial outperformance versus their benchmark and peer funds over time. Interestingly, these funds have also performed very well recently relative to their peers, suggesting that *actively* managed overseas small company funds have performed particularly poorly in the recent past.

Returning to first principles

Returning to our first principles, we see that *the real economy is the source of investment returns,* so the foundation of one's investment portfolio should reflect participation in the economy through a diversified portfolio of bonds, real estate, commodities, and public equities. *Risk is fairly priced*, so investors are rewarded for deliberately taking smart, diversified risk by investing in small and distressed companies. And we can rely on these effects to persist, because *markets work* to ensure that investments reflect their unique risks.

All of these factors suggest that the investment strategy you have adopted with our coaching and implemented in large part using proven DFA vehicles, is very likely to deliver attractive long-term investment returns.

Greg Schick and Bob Wagman

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PERFORMANCE RESULTS

Category	Style		Fund	1st Quarter 2009	12 Months to 3/31/09	3 Years Annualized to 3/31/09
Fixed Income	*Intermediate*		Benchmark Index: Barclays Capital US Aggregate Bond	0.1%	3.1%	5.8%
	(Taxable)		Benchmark Fund: iShares Barclays Aggregate Bond	-0.3%	3.1%	5.7%
		*	**PIMCO Total Return Institutional**	**1.5%**	3.0%	**6.7%**
	Intermediate		Benchmark: Morningstar Muni CA Intermediate Category Avg.	3.5%	-0.2%	1.9%
	(Tax Free)		**Vanguard CA Insured Intermediate Tax-Exempt Adm**	2.6%	**0.7%**	**2.5%**
Real Estate	*Global*		Benchmark Index: Wilshire Global RESI	-25.7%	-60.7%	-26.5%
			Benchmark Fund: 60% SPDR DJ Wilshire Intl RE/ 40% Vanguard REIT Index ETF	-23.5%	-57.1%	N/A
			DWS RREEF Global Real Estate Sec	**-21.2%**	**-56.3%**	N/A
	US		Benchmark Index: Wilshire US REIT Index	-33.9%	-60.7%	-27.0%
			Benchmark Fund: iShares US Real Estate	-30.0%	-57.8%	-26.0%
			DWS RREEF US Real Estate	-31.4%	-59.0%	**-24.7%**
	Energy Infrastructure		Benchmark Index: Citigroup MLP Index	11.2%	-23.8%	-2.6%
			Kayne Anderson MLP	**25.0%**	-26.3%	**-2.0%**
Large Cap: Domestic	*Blend*		Benchmark Index: S&P 500	-11.0%	-38.1%	-13.1%
			Benchmark Fund: iShares S&P 500	-11.0%	-38.0%	-13.1%
			Schwab S&P 500 Institutional Select	**-11.0%**	**-37.9%**	**-13.0%**
			Schwab 1000 Select	**-10.4%**	**-37.8%**	**-13.0%**
		*	**Tax Managed Index Separate Account (Aperio/Parametric)**	*Return based on individual client's portfolio*		
	Value Style		Benchmark Index: Russell 1000 Value	-16.8%	-42.4%	-15.4%
			Benchmark Fund: iShares Russell 1000 Value	-16.7%	-42.3%	-15.4%
			Berkshire Hathaway B	**-12.3%**	**-37.0%**	**-2.2%**
		*	**DFA Large Cap Value**	-16.8%	-46.6%	-18.5%
		*	**DFA Tax Managed Marketwide Value**	-16.8%	-46.5%	-19.2%
Large Cap: Developed Overseas	*Blend Style*		Benchmark Index: MSCI EAFE	-13.9%	-46.2%	-14.1%
			Benchmark Fund: Vanguard FTSE All World ex US ETF	-12.3%	-46.3%	N/A
			Vanguard Total International Stock Fund	-13.0%	-46.6%	-13.4%
	Value Style		Benchmark Index: MSCI EAFE Value	-15.5%	-47.3%	-15.4%
			Benchmark Fund: iShares MSCI EAFE Value	-15.6%	-47.6%	-16.0%
		*	**DFA International Value**	-16.1%	-51.0%	**-16.0%**
		*	**DFA Tax Managed International Value**	-16.7%	-49.5%	**-15.2%**

* Preferential Access Through Aspiriant

Returns are stated net of manager's fees, but before Aspiriant fees. All fund returns above are stated including the reinvestment of dividends and capital gains. Figures in bold reflect performance equal to or better than benchmark fund or, in cases where the benchmark fund's performance is not available, performance equal to or better than benchmark index.

PERFORMANCE RESULTS

Category	Style	Fund	1st Quarter 2009	12 Months to 3/31/09	3 Years Annualized to 3/31/09
Small Cap: Domestic	*Blend Style*	Benchmark Index: Russell 2000	-15.0%	-37.5%	-16.8%
		Benchmark Fund: iShares Russell 2000	-14.9%	-37.3%	-16.7%
	*	**DFA US Small Cap**	**-13.8%**	-39.0%	-18.2%
	*	**DFA Tax Managed US Small Cap**	-15.0%	-42.1%	-19.4%
	*	**DFA US Micro Cap**	-16.1%	-40.9%	-20.1%
	Value Style	Benchmark Index: Russell 2000 Value	-19.6%	-38.9%	-17.5%
		Benchmark Fund: iShares Russell 2000 Value	-19.6%	-38.7%	-17.5%
	*	**DFA US Small Cap Value**	**-17.4%**	-44.5%	-21.0%
	*	**DFA Tax Managed US Targeted Value**	**-18.8%**	-45.9%	-21.5%
Small Cap: Developed Overseas		Benchmark Index: MSCI EAFE Small Cap	-9.5%	-48.7%	-19.1%
		Benchmark Fund: SPDR S&P International Small Cap ETF	-11.3%	-48.3%	N/A
	*	**DFA International Small Company**	**-10.8%**	**-47.2%**	**-15.9%**
	*	**DFA International Small Cap Value**	-13.2%	**-47.4%**	**-15.9%**
Emerging Markets		Benchmark Index: MSCI Emerging Markets	1.0%	-46.9%	-7.9%
		Benchmark Fund: Vanguard Emerging Markets ETF	0.1%	-47.2%	-8.5%
	*	**DFA Emerging Markets Core Equity Portfolio (inception date 4/5/05)**	-1.7%	-45.9%	-7.8%
Commodities		Benchmark Index: Goldman Sachs Commodity Index	-10.6%	-56.5%	-18.3%
		Benchmark Fund: iShares GSCI Commodity-Indexed Trust	-8.8%	-56.3%	N/A
		GSCI Enhanced Commodity Total Return Strategy Index ETN	**-4.7%**	**-50.3%**	N/A
		iPath GSCI Total Return Index ETN	-11.2%	-57.7%	N/A

* Preferential Access Through Aspiriant

Returns are stated net of manager's fees, but before Aspiriant fees. All fund returns above are stated including the reinvestment of dividends and capital gains. Figures in bold reflect performance equal to or better than benchmark fund or, in cases where the benchmark fund's performance is not available, performance equal to or better than benchmark index.

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