

Benchmark Returns for the Period Ended December 31, 2011

	Annualized				
	Quarter	1 Year	5 Year	10 Year	Since 1/1/73
US Treasury Bills	0.00%	0.10%	1.48%	1.95%	5.88%
Barclays Capital US Gov't/Credit Inter Bond	0.84%	5.80%	5.88%	5.20%	7.77%
Standard & Poor's 500	11.82%	2.11%	-0.25%	2.92%	9.61%
Russell 1000 Value (large cap value)	13.11%	0.39%	-2.64%	3.89%	N/A
Russell 2000 (small cap)	15.47%	-4.18%	0.15%	5.62%	N/A
Morgan Stanley Europe, Australia and Far East (EAFE)	3.38%	-11.73%	-4.26%	5.12%	8.97%
Wilshire REIT	15.42%	9.24%	-1.96%	10.16%	N/A

Source for returns: Dimensional Fund Advisors and Morningstar™ as of 12/31/11.

Quarterly Commentary

The equity markets rallied in the fourth quarter, although not enough to offset the declines from the third quarter. Corporate earnings are at record levels, but the ongoing uncertainty with the European Union has served to suppress equity valuations. Domestic small cap and value securities led the advances while developed international and emerging market shares continued to lag the overall market. The Standard & Poor's 500 advanced by 11.8% in the quarter, and has risen by 2.1% throughout 2011.

During 2011, a globally diversified portfolio did not perform as well as the S&P 500. This has happened in 16 of the past 42 years. Stated conversely, the globally diversified portfolio has outperformed the S&P 500 in 26 of the past 42 years, but not in 2011. Cumulatively, for this period, the annualized return for the globally diversified portfolio is meaningfully higher.

Focusing on the economy, Gross Domestic Product advanced by an annualized 1.8% in the third quarter—only slightly better than the anemic growth of 1.3% in the second quarter. Fortunately economists expect growth in the fourth quarter of the year to rebound to between 3.0% and 3.5%. There is finally some good news from the employment front as unemployment declined from a narrow range of 9.0% to 9.2% from April through October to 8.5% in December. Although the public sector continues to represent a drag on hiring, the private sector has picked up the slack as unemployment has fallen to a three year low. US non-farm productivity increased at a rate of 2.3% from the second to third quarters after a decline of 0.7% in the previous quarter. Finally, the Consumer Price Index was unchanged in November and advanced by 3.4% over the previous 12 months. This is more or less in line with historical rates of inflation after several years of non-existent price pressure.

While it is a new year, we seem to be saddled with the same challenges that we have faced for the last few years. What began largely as a consumer debt issue in 2007, via housing and mortgage related issues, has somewhat worked itself out only to evolve into a sovereign debt crisis, for the time being isolated in the core European economies. While the ultimate fate of the EU is unknown, it is apparent that the core strength of the Union (Germany & France) is committed to defending the economic block. There is clearly a disconnect between global corporate health and global sovereign health. Even if the EU agreement ultimately collapses, much like a corporation that breaks itself into individual operating companies, only the weakest components should struggle on a longer term basis, allowing the stronger participants to prosper.

There is a growing body of work that suggests that responses to positive and negative information are asymmetric—that negative information has a much greater impact on individuals' attitudes than positive information. As we are constantly bombarded by bad news in the media, rest assured that these issues will eventually work themselves out just as all past challenges have been resolved.

Best wishes for a happy and prosperous New Year.

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