

Cypress Asset Management, Inc. Fee Only Wealth Management

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CYPRESS ASSET MANAGEMENT

Contents

- Client Services
- Dimensional Fund Advisors
- Disclosures
 - The Important Disclosures Regarding Simulated Strategies slides contain an optional sentence highlighted in red. This sentence is required if your firm has been in business for less than 10 years.
- Diversification
- Equity Allocations
- Fixed Income
- Impact of Taxes on Returns
- Market Timing and Stock Selection
- Passive Approach
- Retirement Planning
- Risk and Expected Return
- Simulated Strategies
 - Value-3, Series A (60/40)
 - Value-3 With Hard Assets, Series A (60/40)
 - Risk Target 3, Series A (60/40)
 - Risk Target 3 With Hard Assets, Series A (60/40)
 - Risk Target 3, Series B (70/30)
 - Risk Target 3 With Hard Assets, Series B (70/30)

Client Services

Sample Client Report

Quarterly Portfolio Performance Review

Our reports:

- Reconcile the account for the quarter.
- Clearly state investment gains or losses.
- Provide internal rates of return and time-weighted returns.

MICHAEL SMITH GROUP
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ALL ACCOUNTS

Portfolio Performance Review

(9/30/2007 - 12/31/2007)

Beginning Value (September 30, 2007)		\$2,531,258.71
Deposits	\$0.00	
Withdrawals	\$0.00	
Net Deposit		\$0.00
Dividend Income	\$13,265.36	
Interest Income	\$3,609.38	
Total Income		\$16,874.74
Management Fees	\$0.00	
Other Expenses	\$0.00	
Total Expenses		\$0.00
Beginning Accrued Income Value	\$4,105.56	
Accrued Income Paid	\$0.00	
Ending Accrued Income Value	\$9,489.60	
Change in Accrued Income		\$5,384.04
External Fee Payments		\$994.06
Capital Decrease		(\$86,990.33)
Ending Value (December 31, 2007)		\$2,466,527.16
Investment Loss		(\$64,731.55)

Trailing Period Performance

	1st Quarter 2008	Year To Date	Trailing 12 Months	Trailing 3 Years	Trailing 5 Years	Trailing 10 Years	Inception To Date*
Internal Rate of Return (Net)	(2.56%)	3.82%	3.82%	9.54%	14.41%	9.26%	9.20%
Time-Weighted Rate of Return (Net)	(2.56%)	3.60%	3.60%	9.23%	14.33%	8.20%	8.18%

*Return Since Inception Date of 8/6/1995
Returns are Net of Fees
Returns for Periods Exceeding 12 Months are Annualized

- Page 1 of 1 -

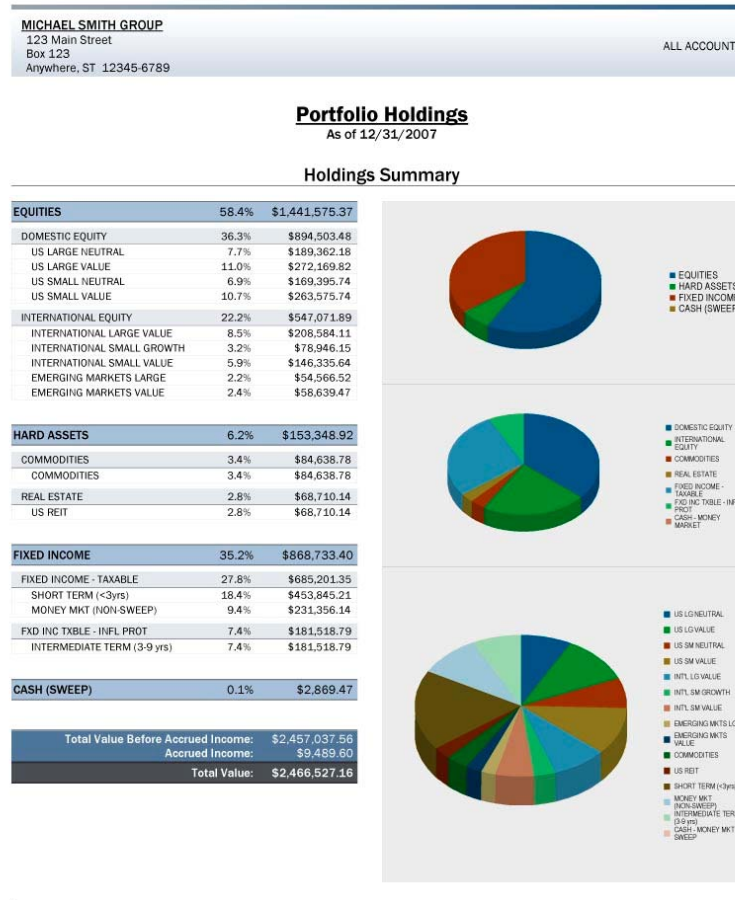
Sample not intended to represent an actual portfolio or actual returns.

Sample Client Report

Quarterly Portfolio Holdings

A snapshot of your portfolio that:

- Includes color pie charts customized to each client account or group of accounts.
- Shows position totals by:
 - Security
 - Asset class
 - Total portfolio



Fee Schedule

<u>Account Value</u>	<u>Annual Fee</u>
\$500,000 to \$999,999	1.00%
\$1,000,000 to \$1,999,999	0.90%
\$2,000,000 to \$2,999,999	0.80%
\$3,000,000 to \$3,999,999	0.70%
\$4,000,000 to \$4,999,999	0.60%
\$5,000,000 or greater	0.50%
 Minimum Account:	 \$1,000,000

Dimensional Fund Advisors

About Dimensional Fund Advisors (DFA)

“Rather than trying to take advantage of the ways markets are mistaken, we take advantage of the ways markets are right — the ways they compensate investors. The firm designs portfolios to help our investors capture what the market offers in all its dimensions.” — DFA

Overview

- Started in 1981 by University of Chicago alumni David Booth and Rex Sinquefeld
- Focus on passive, low-cost investing
- Strong connection to leading financial economists and the academic community
- Commitment to tax management
- Advocates diversification, which minimizes uncompensated risks
- \$110 billion under management (as of December 2008)

Benefits of DFA's Tax Management

Return Lost to Taxes (%)											
DFA Fund	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	10 Years Ending 2008
Small Cap	2.87	3.07	2.27	0.28	0.11	0.35	1.20	1.30	1.15	0.36	1.26
Large Value	3.06	4.31	2.84	0.42	0.31	0.34	0.33	0.84	0.97	0.49	1.38
Small Value	2.39	2.30	4.44	1.87	2.24	1.42	1.44	1.78	1.42	0.43	1.88
Tax-Managed Small Cap	0.14	0.14	0.11	0.04	-0.02	0.02	0.04	0.13	1.45	0.30	0.26
Tax-Managed Marketwide Value	0.43	0.67	0.36	0.15	0.12	0.17	0.22	0.45	0.61	0.50	0.39
Tax-Managed Small Value	0.22	0.33	0.17	0.05	0.06	0.38	1.41	1.86	1.12	0.34	0.60
											Nine Years Ending 2008
International Value	1.29	2.05	1.30	0.70	0.66	0.65	1.05	1.66	1.31	0.83	1.17
Tax-Managed International Value	N/A	0.42	0.34	0.56	0.18	0.17	0.63	2.18	2.21	0.81	0.85
											Seven Years Ending 2008
US Large	0.72	0.36	0.43	0.43	0.30	0.35	0.29	0.60	0.59	0.54	0.46
Tax-Managed US Equity	N/A	N/A	N/A	0.14	0.13	0.20	0.20	0.46	0.47	0.50	0.32

Source: Dimensional Fund Advisors. Data as of December 31, 2008.

Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results.

Assumes maximum tax rates of 35 percent for income and short-term gains and 15 percent for long-term gains.

DFA Vs. Vanguard

Multi-Period Comparison of Fund Returns (%)

Asset Class	Fund	One-Year	Three-Year	Five-Year	10-Year
US Large-Cap	DFA US Large Company Inst'l Index Portfolio (DFUSX) ¹	-36.76	-8.26	-2.13	N/A
	Vanguard 500 Index Admiral Shares (VFIAX)	-36.97	-8.36	-2.21	-1.40
US Large-Cap Value	DFA US Large Cap Value Portfolio III (DFUVX)	-40.74	-11.44	-1.92	2.28
	Vanguard Value Index Admiral Shares (VVIAX)	-35.90	-7.75	-0.58	0.69
US Small-Cap	DFA US Micro Cap Portfolio Class I (DFSCX)	-36.72	-11.35	-2.71	6.44
	DFA US Small Cap Portfolio Class I (DFSTX)	-36.01	-10.23	-1.99	4.84
	Vanguard Small-Cap Index Admiral Shares (VSMAX)	-36.00	-9.14	-0.65	3.40
US Small-Cap Value	DFA US Small Cap Value Portfolio Class 1 (DFSVX)	-36.79	-11.81	-1.51	7.32
	Vanguard Small-Cap Value Index (VISVX)	-32.06	-9.03	-0.27	5.22
Emerging Markets	DFA Emerging Markets Portfolio Class 1 (DFEMX)	-49.20	-3.72	8.53	9.49
	DFA Emerging Markets Value Portfolio Class 1 (DFEVX)	-53.94	-2.56	11.05	13.39
	Vanguard Emerging Markets Stock Index Admiral Shares (VEMAX)	-52.76	-5.24	7.22	8.92
Real Estate	DFA Real Estate Securities Portfolio Class 1 (DFREX)	-37.36	-11.68	0.59	7.55
	Vanguard REIT Index Admiral Shares (VGSLX)	-36.98	-10.70	0.85	7.19

Source: Dimensional Fund Advisors and Morningstar.

Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results.

Data as of December 31, 2008.

All fund information is live data. Returns for greater than one year are annualized. The return data is for the performance of Vanguard and DFA Funds and does not include the deduction of advisory fees. This is not actual or model performance of any advisor's portfolios. Please refer to the simulated strategy slides for information on model portfolio performance and the effect of advisory fees on performance. Total return includes reinvestment of dividends and capital gains. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. This is not a prospectus. There will be a management fee associated with any managed account that will be charged, which will reduce returns accordingly.

¹DFA US Large Company Inst'l Index Portfolio represents the DFA US Large Company Portfolio from January 1991 to September 1999 and the DFA US Large Company Inst'l Index Portfolio from October 1999 to present.

Disclosures

Important Disclosures Regarding Simulated Strategies

The following pages include illustrations of returns for the types of portfolios we design for clients.

The Simulated Strategies may or may not be the actual allocation determined to be appropriate for any individual clients, and a client may or may not follow the Simulated Strategies. Clients with the allocations shown may have different results based on capital flows, timing of rebalancing decisions, fees charged or other factors.

Our investment strategy is based on the principles of Modern Portfolio Theory (MPT). The tenets of MPT provide for a passive, long-term, buy-and-hold strategy implemented through globally diversified portfolios. Mutual funds representing asset classes where academic research has demonstrated higher expected returns for the level of risk taken are combined into a single portfolio. Portfolios are constructed with low-correlating components to provide diversification for the purpose of reducing the risk caused by volatility. Commodities may be added to some client portfolios for the purpose of additional risk reduction and not necessarily to provide higher expected returns in such portfolios. Portfolios are rebalanced to maintain agreed-upon asset allocations.

The historical performance information that follows is provided to demonstrate the methodology used in building portfolios using the aforementioned investment strategy. This information should not be considered as a demonstration of actual performance results or actual trading using client assets and should not be interpreted as such. The results are based on the retroactive application of a back-tested model that was designed with the benefit of hindsight and should not be interpreted as the performance of actual accounts. Past performance is not a guarantee of future results. The Simulated Strategies started in 1996 and have evolved over the years. **[The advisor has not managed client portfolios this entire period of time.]** Commodities, when shown in a portfolio, were added in 2004. Core funds, when shown in a portfolio, were added in 2007. International real estate, when shown in a portfolio, was added in 2008. All should be considered material changes to the Simulated Strategies. The differences in demonstrated returns can be seen by comparing Simulated Strategies with and without each of these. The investment returns and principal value of mutual funds recommended by our firm will fluctuate and may be worth more or less than their original cost when sold. A client may experience a loss when implementing an investment strategy.

In 1999, tax-managed funds became available for several different asset classes. We now use tax-managed funds extensively for taxable entities. While the tax-managed funds are consistent with the passive approach we follow, they should not be expected to regularly track the performance of corresponding taxable funds in the same or similar asset classes. As such, the performance of portfolios using tax-managed funds will vary from portfolios that do not use these funds.

Back-tested data does not represent the impact that material economic and market factors might have on an investment advisor's decision-making process if the advisor were actually advising an investor and should not be considered indicative of the skill of the advisor. The back-testing of performance differs from actual account performance because an investment strategy may be adjusted at any time and for any reason, and can continue to be changed until desired or better performance results are achieved. The back-tested results assume ordinary income and capital gains distributions are reinvested, annual rebalancing and no income taxes. If performance reflects the deduction of an advisory fee **(1.85 percent or less)** billed quarterly in advance, it is indicated on the page. More information about mutual fund fees and expenses is available in the prospectus for each mutual fund.

Any back-tested data used in creating the Simulated Strategies includes only live funds. All funds are live for 10 years or more except the commodities fund, core funds and the international real estate fund.

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Sources and Descriptions of Data

U.S. Equities

S&P 500 Index

Courtesy of Roger G. Ibbotson and Rex A. Sinquefeld, *Stocks, Bonds, Bills and Inflation: The Past and the Future*, Dow Jones, 1989. Ibbotson Associates, Chicago, annually updates work by Roger G. Ibbotson and Rex A. Sinquefeld. Used with permission. All rights reserved.

CRSP Deciles 9–10 Index

Courtesy of Center for Research in Security Prices (CRSP), University of Chicago. Small company universe returns (Deciles 9–10) — all exchanges.

January 1926–June 1962: NYSE, rebalanced semiannually.
July 1962–December 1972: CRSP Database, NYSE and AMEX, rebalanced quarterly.
January 1973–September 1988: CRSP Database, NYSE, AMEX and OTC, rebalanced quarterly.
October 1988–present: CRSP Index (NYSE, AMEX and OTC).

CRSP Deciles 6–10 Index

Courtesy of CRSP, University of Chicago. Small company universe returns (Deciles 6–10) — all exchanges.

January 1926–June 1962: NYSE, rebalanced semiannually.
July 1962–December 1972: CRSP Database, NYSE and AMEX, rebalanced quarterly.
January 1973–September 1988: CRSP Database, NYSE, AMEX and OTC, rebalanced quarterly.
October 1988–present: CRSP Index (NYSE, AMEX and OTC).

CRSP Deciles 1–10 Index (market)

Courtesy of CRSP, University of Chicago.

January 1926–June 1962: NYSE, rebalanced semiannually.
July 1962–present: CRSP deciles 1–10 cap-based (market) portfolio, rebalanced quarterly.

Fama-French US Large Growth Index (excluding utilities),

Fama-French US Large Cap Index,

Fama-French US Large Cap Value Index (excluding utilities),

Fama-French US Small Growth Index (excluding utilities),

Fama-French US Small Cap Index and

Fama-French US Small Cap Value Index (excluding utilities)

January 1927–present: Courtesy of Fama-French and CRSP. Upper-half market cap, upper 30 percent book-to-market. Buy range-only, no simulated hold range or estimated trading costs, rebalanced quarterly.
Composition: U.S. operating companies trading on the NYSE, AMEX or Nasdaq NMS. Maximum weight of any security in a portfolio is 4 percent.
Exclusions: ADRs, investment companies, tracking stocks before 1993, non-U.S. incorporated companies, closed-end funds and certificates.
Sources: CRSP databases for returns and market capitalization: 1926–present. Compustat and hand-collected book values: 1926–1992. CRSP links to Compustat and hand-collected links: 1926–present. Book-to-market ratios provided by Dimensional Fund Advisors (DFA): 1993–present.
Breakpoints: Before June 1996, the small-cap portfolios contain firms with market capitalization below the 55th percentile of all eligible NYSE firms, and the large-cap portfolios contain firms with market caps above the 50th percentile. From June 1996 to December 2000, the size breakpoint for all portfolios is the market cap of the median eligible NYSE firm. The book-to-market breakpoints for 1926 to 2000 split the eligible NYSE firms with positive book equity into three categories: the top 30 percent are in value and the bottom 30 percent are in growth.
Starting in January 2001, the size breakpoints are defined by cumulative market cap percentile rules. Small-cap is the bottom 8 percent of the overall stock market and large-cap is the top 90 percent. The book-to-market breakpoints are defined by the firms in the relevant size range.
The breakpoints for small-cap value (high book-to-market) and small-cap growth (low book-to-market) assign 25 percent of the total market cap in the small-cap size range to each portfolio. The book-to-market breakpoints for large-cap assign 10 percent of the market equity of large firms to the large-cap value portfolio and 20 percent to the large-cap growth portfolio.
Rebalancing: Annual (at the end of June): 1926–1992. Quarterly: 1993–present.

Dimensional US Micro Cap Index

Courtesy of CRSP and Compustat.

June 1927–present:

Dimensional US Micro Cap Index.

Composition: Market-capitalization-weighted index of securities of the smallest U.S. companies whose market capitalization falls in the lowest 4 percent of the total market capitalization of the eligible market. The eligible market is composed of securities of U.S. companies traded on the NYSE, AMEX and Nasdaq Global Market.

Dimensional US Small Cap Value Index

Courtesy of CRSP and Compustat.

June 1927–present:

Dimensional US Small Cap Value Index.

Composition: Companies whose book-to-market ratio falls in the top 25 percent of U.S. small-cap companies after the exclusion of utilities, companies lacking financial data and companies with negative book-to-market ratio. The eligible market is composed of securities of U.S. companies traded on the NYSE, AMEX and Nasdaq Global Market.

Dimensional US Large Cap Value Index

Courtesy of CRSP and Compustat.

June 1927–present:

Dimensional US Large Cap Value Index.

Composition: Companies whose book-to-market ratio falls in the top 20 percent of U.S. large-cap companies after the exclusion of utilities, companies lacking financial data and companies with negative book-to-market ratio. The eligible market is composed of securities of U.S. companies traded on the NYSE, AMEX and Nasdaq Global Market.

US Market Equity — Risk Targets 2 and 3

Courtesy of DFA.

January 1973–present:

DFA US Adjusted Market 2 Index.

US Large Cap Value

Courtesy of DFA.

January 1973–present:

DFA US Large Cap Value Index.

US Small Cap Value

Courtesy of DFA.

January 1973–present:

DFA US Targeted Value Index.

International Equities

Fama-French International Value Index

Courtesy of Morgan Stanley Capital International (MSCI) and Fama-French.

January 1973–December 1974:

Data provided by MSCI EAFE Index (net dividends).

January 1975–present:

Data provided by Fama-French from MSCI securities data. Simulated strategy of MSCI EAFE countries in the upper 30 percent book-to-market range.

Dimensional International Small Cap Index

Courtesy of DFA.

January 1970–June 1981:

50 percent Hoare Govett Small Companies Index.
50 percent Nomura Small Companies Index.

July 1981–present:

Simulated by DFA from Style Research securities data. Includes securities of MSCI EAFE countries in the bottom 10 percent of market capitalization, excluding the bottom 1 percent.

Sources and descriptions of data supplied by Dimensional Fund Advisors. Information from sources deemed reliable, but its accuracy cannot be guaranteed.

Sources and Descriptions of Data

International Market Equity

Courtesy of MSCI, DFA and Fama-French.

January 1973–December 1974:	50 percent MSCI EAFE (net dividends). 50 percent DFA International Small Cap Index.
January 1975–June 1981:	35 percent MSCI EAFE (net dividends). 28 percent Fama-French International Value Index. 37 percent DFA International Small Cap Index.
July 1981–present:	35 percent MSCI EAFE (net dividends). 28 percent Fama-French International Value Index. 32 percent DFA International Small Cap Index. 5 percent DFA International Small Cap Value Index.

International Large Value

Courtesy of MSCI, DFA and Fama-French.

January 1973–December 1974:	50 percent MSCI EAFE (net dividends). 50 percent DFA International Small Cap Index.
January 1975–present:	Fama-French International Value Index.

International Small Value

Courtesy of DFA.

January 1973–June 1981:	DFA International Small Cap Index.
July 1981–present:	DFA International Small Cap Value Index.

Emerging Market Equity

Courtesy of MSCI, DFA and Fama-French.

January 1973–December 1974:	25 percent MSCI EAFE (net dividends). 75 percent DFA International Small Cap Index.
January 1975–December 1987:	50 percent Fama-French International Value Index. 50 percent DFA International Small Cap Index.
January 1988–December 1988:	MSCI Emerging Markets Index (gross).
January 1989–present:	50 percent MSCI Emerging Markets Index (gross). 25 percent Fama-French Emerging Markets Small Cap Index. 25 percent Fama-French Emerging Markets Value Index.

Fixed Income

Barclays Capital Government/Credit Bond Index

Range 1–30+ years. Courtesy of Barclays Capital.

Barclays Capital Intermediate Government Credit Bond Index

Range 1–10 years. Courtesy of Barclays Capital.

Six-Month Treasury Bills

Courtesy of CRSP and Merrill Lynch.

January 1964–December 1977:	CRSP.
January 1978–present:	Merrill Lynch G002 Index.

One-Year Treasury Note Index

Courtesy of CRSP, DFA and Merrill Lynch.

July 1963–May 1991:	CRSP/DFA.
June 1991–June 2000:	Merrill Lynch One-Year US Treasury Bill Index.
July 2000–present:	Merrill Lynch One-Year US Treasury Note Index (GC03 Index).

One-Month Treasury Bills (Average maturity: 30 days), Five-Year Treasury Notes, Long-Term Government Bonds (Average maturity: 20 years) and Long-Term Corporate Bonds

Courtesy of Roger G. Ibbotson and Rex A. Sinquefeld, *Stocks, Bonds, Bills and Inflation: The Past and the Future*, Dow Jones, 1989. Ibbotson Associates, Chicago, annually updates work by Roger G. Ibbotson and Rex A. Sinquefeld. Used with permission. All rights reserved.

One-Month Certificate of Deposit

Courtesy of Federal Reserve Bank.

January 1966–present:	One-Month Certificate of Deposit Index.
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Three-Month Certificate of Deposit

Courtesy of Federal Reserve Bank.

January 1988–present:	Three-Month Certificate of Deposit Index.
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Six-Month Certificate of Deposit

Courtesy of Federal Reserve Bank.

January 1988–present:	Six-Month Certificate of Deposit Index.
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Merrill Lynch Three-Month US Treasury Bill Index

Courtesy of Merrill Lynch.

January 1978–present:	Merrill Lynch Three-Month US Treasury Bill Index.
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Barclays Capital US Government Bond Index (Intermediate)

Courtesy of Barclays Capital.

January 1973–present:	Barclays Capital Intermediate Government Bond Index.
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Barclays Capital Treasury Bond Index (Intermediate)

Courtesy of Barclays Capital.

January 1973–present:	Barclays Capital Intermediate Treasury Bond Index.
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Barclays Capital Credit Bond Index (Intermediate)

Range 1–10 years. Courtesy of Barclays Capital.

January 1973–present:	Barclays Capital Intermediate Credit Bond Index.
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Barclays Capital Treasury Bond Index

Range 1–30+ years. Courtesy of Barclays Capital.

January 1973–present:	Barclays Capital Treasury Bond Index.
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Barclays Capital US Government Bond Index

Range 1–30+ years. Courtesy of Barclays Capital.

January 1973–present:	Barclays Capital Government Bond Index.
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CSFB High Yield Index

Courtesy of Morningstar.

January 1988–present:	CSFB High Yield Index.
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Fixed Income for Risk Target 3 2008 Indexes

Courtesy of Merrill Lynch, Citigroup and Barclays Capital.

January 1973–December 1989:	Merrill Lynch One-Year US Treasury.
January 1990–February 1997:	Citigroup World Government Bond (1–3 Hedged).
March 1997–present:	50 percent Citigroup World Government Bond (1–3 Hedged). 50 percent Barclays Capital TIPS Index.

Hard Assets

Dow Jones Wilshire REIT Index

Courtesy of Dow Jones Wilshire.

January 1978–present:	Dow Jones Wilshire REIT Index.
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S&P Goldman Sachs Commodities Index™

Courtesy of Bloomberg.

January 1970–present:	S&P Goldman Sachs Commodities Index™
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Inflation

Courtesy of Roger G. Ibbotson and Rex A. Sinquefeld, *Stocks, Bonds, Bills and Inflation: The Past and the Future*, Dow Jones, 1989. Ibbotson Associates, Chicago, annually updates work by Roger G. Ibbotson and Rex A. Sinquefeld. Used with permission. All rights reserved.

Equity Allocations

Part 1: The Ability to Take Risk

Guidelines for Equity Allocations

Investment Horizon	Maximum Equity Allocation
0–3 years	0%
4 years	10%
5 years	20%
6 years	30%
7 years	40%
8 years	50%
9 years	60%
10 years	70%
11–14 years	80%
15–19 years	90%
20+ years	100%

These are not formulas, but rather guidelines for prudent asset allocation decisions.

Part 2: The Willingness to Take Risk

Guidelines for Equity Allocations

Maximum Tolerable Loss	Maximum Equity Exposure
5%	20%
10%	30%
15%	40%
20%	50%
25%	60%
30%	70%
35%	80%
40%	90%
50%	100%

These are not formulas, but rather guidelines for prudent asset allocation decisions.

Part 3: The Need to Take Risk

Guidelines for Equity Allocations

<u>Financial Goal*</u>	<u>Equity Allocation*</u>
2.50%	0%
3.75%	20%
5.00%	40%
6.25%	60%
7.50%	80%
8.75%	100%

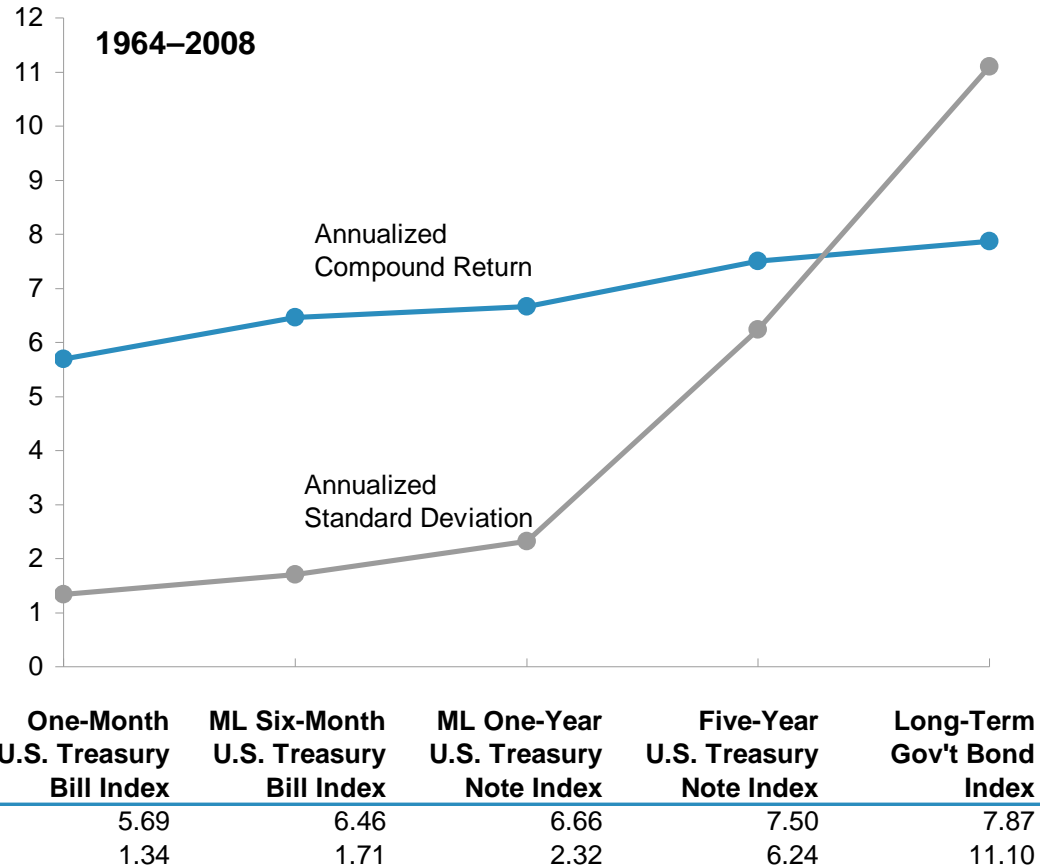
These are not formulas, but rather guidelines for prudent asset allocation decisions.

*Financial goal expected returns are based on a Risk Target-3 model portfolio (does not include advisor fees) ... based on current valuations and expected inflation rate (0.60 percent) and, therefore, **subject to change**. The expected returns numbers were calculated based on current assumptions and then rounded.

Fixed Income

Does It Pay to Extend Maturities?

- Longer-maturity instruments are riskier.
- Returns for longer-maturity instruments are not consistently greater.
- By using lower-risk vehicles in the fixed income portion of a portfolio, it is possible to take more risk on the equity side.



Source: Dimensional Fund Advisors.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio nor do indices represent results of actual trading.

Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results.

Total return includes reinvestment of dividends.

See *Sources and Descriptions of Data* at the end of this booklet.

Standard deviation annualized from quarterly data.

Market Timing and Stock Selection

Investors' Trades Lead to Market Underperformance

Three landmark studies found that individual investors' trading decisions generally adversely affect portfolio performance.

- Investors' buys trailed the market; stocks sold outperformed after the sale.¹

Conclusion: The time and money investors spent cut into their profits instead of enhancing them.

- There is an inverse correlation between investors' confidence and performance.²

Conclusion: The more confident investors were in their ability to trade, the worse their results.

- Men trade 45 percent more than women, and trading reduced net returns by 2.7 percent per year for men and 1.7 percent per year for women.³

Conclusion: Lower turnover produced lower trading costs, and thus, greater returns.

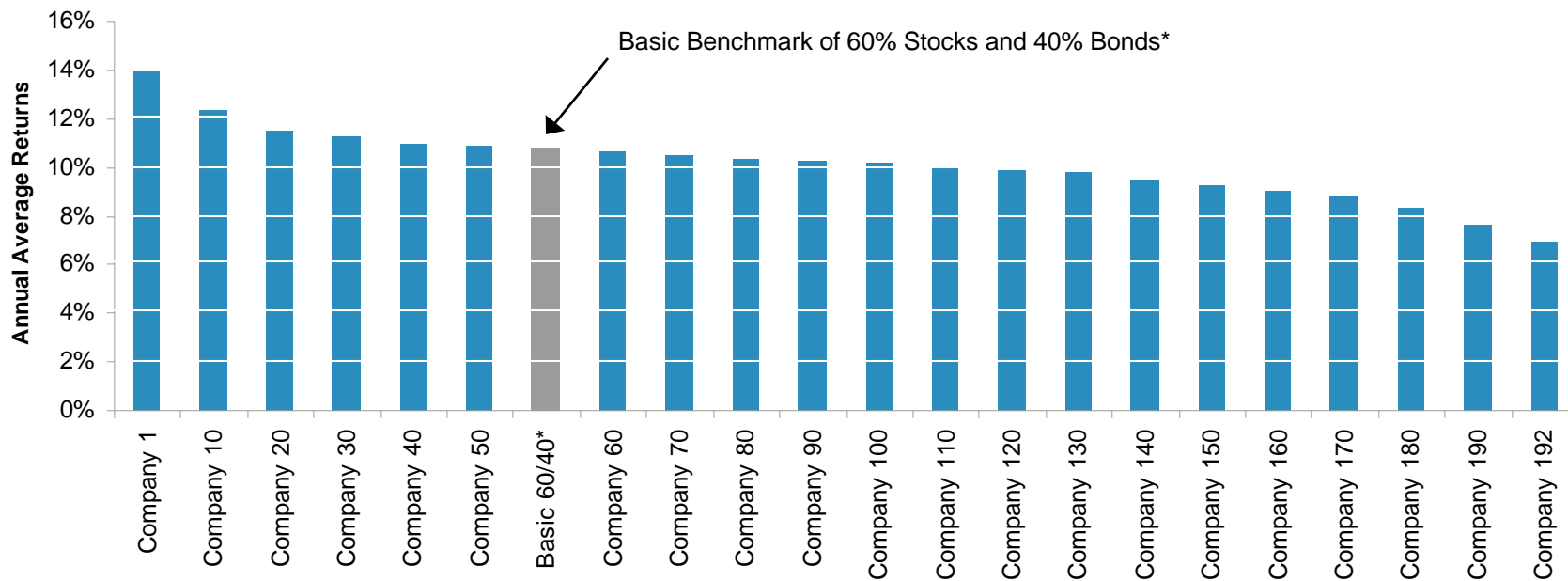
¹ Brad M. Barber and Terrance Odean, *Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors*. *Journal of Finance*, April 2000.

² Terrance Odean, *Do Investors Trade Too Much?* *American Economic Review*, December 1999.

³ Brad M. Barber and Terrance Odean, *Boys Will Be Boys: Gender, Overconfidence and Common Stock Investment*. *Quarterly Journal of Economics*, February 2001.

Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results.

How Many Corporate Pension Plans Outperformed a Passive Benchmark?

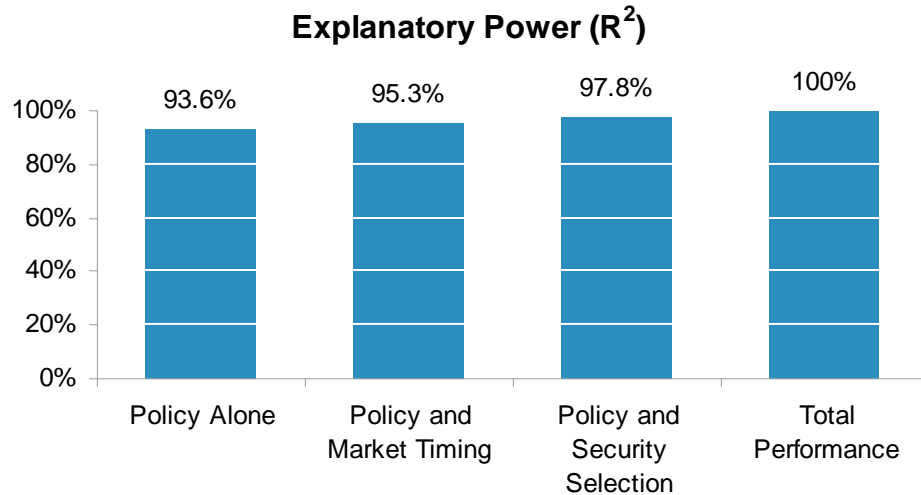


Consulting firm Futuremetrics' most recent analysis of U.S. corporate pension plans covered the period 1988–2005. Of the 192 firms in the analysis, 137 plans (71 percent) failed to outperform a simple benchmark.

Source: FutureMetrics, LLC (December 2006); all companies with fiscal year ending December, with complete return data from 1988–2005 and Dimensional Fund Advisors. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio nor do indices represent results of actual trading. Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results. See *Sources and Descriptions of Data* at the end of this booklet.

*Basic benchmark of 60% stocks and 40% bonds is composed of 60% S&P 500 Index and 40% Barclays Capital Intermediate Government/Credit Bond Index, rebalanced monthly. Sample of Participating Companies (in alphabetical order): Anheuser-Busch Cos., Inc., Avista Corp., Cooper Industries, Inc., Delta Air Lines, Inc., Edison International, First Energy Corp., Goodyear Tire & Rubber Co., Ingersoll-Rand Co., Intl Business Machines Corp., Jefferson-Pilot Corp., Lincoln National Corp., Sherwin-Williams Co., Sunoco, Inc., SunTrust Banks, Inc., UAL Corp., Union Pacific Corp., Verizon Communications, VF Corp., West Pharmaceutical Services, Williams Cos., Inc., Wolverine World Wide, Inc.

What Explains the Difference in Returns Across Portfolios?



Policy

Allocating assets in a portfolio

Market Timing

Shifting portfolio assets in and out of the market or between asset classes

Security Selection

Finding “underpriced” companies or industries

- Differences in returns are explained almost entirely by asset allocation.
- Market timing and security selection add little to the explanation.

Can You Pick the Next Winner?

Asset Class Returns 1984–2008

1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
21.9	67.5	65.4	40.7	38.6	38.3	29.1	48.5	37.3	46.9	16.2	39.8	37.1	36.0	28.6	40.9	49.8	27.0	32.1	79.5	33.2	25.6	36.0	32.7	-37.0
13.7	55.2	59.5	35.1	29.8	31.5	-3.1	47.6	21.5	34.4	14.8	37.6	33.9	35.0	23.1	33.4	31.0	16.4	3.6	69.2	32.1	22.6	33.0	8.0	-39.2
11.6	32.2	19.8	23.8	27.9	30.8	-16.0	31.2	15.1	28.4	5.3	35.1	25.4	33.4	13.2	33.0	15.7	12.4	-2.9	65.6	30.6	15.1	26.3	6.4	-39.7
9.1	29.1	19.4	5.3	26.7	29.0	-17.9	30.5	14.2	26.5	2.7	32.4	23.2	24.3	10.2	30.2	10.9	1.6	-13.8	60.3	25.2	13.8	23.8	5.5	-41.7
6.3	28.7	18.5	5.2	26.0	18.2	-21.6	23.8	7.6	18.7	2.3	20.3	23.0	19.7	-4.6	21.0	4.0	-11.9	-13.8	36.2	18.3	8.0	22.3	-2.2	-45.1
1.1	25.4	7.1	-5.9	22.7	12.0	-23.4	10.0	4.5	15.1	1.3	12.2	19.6	0.4	-5.8	14.2	-4.2	-15.4	-17.4	32.2	17.3	6.2	17.6	-7.1	-46.1
-1.1	10.0	4.4	-6.6	17.5	11.3	-23.4	5.8	-9.8	10.1	1.2	10.3	10.2	-14.1	-17.0	8.7	-9.1	-16.8	-19.1	28.7	16.4	5.4	15.8	-13.5	-46.5
-10.7	6.5	2.1	-13.0	16.8	2.7	-27.3	-6.1	-20.6	-12.3	-3.1	1.0	2.8	-14.6	-35.8	-2.6	-12.3	-31.9	-22.1	20.7	10.9	4.9	-15.1	-17.6	-47.1



Source: Dimensional Fund Advisors.

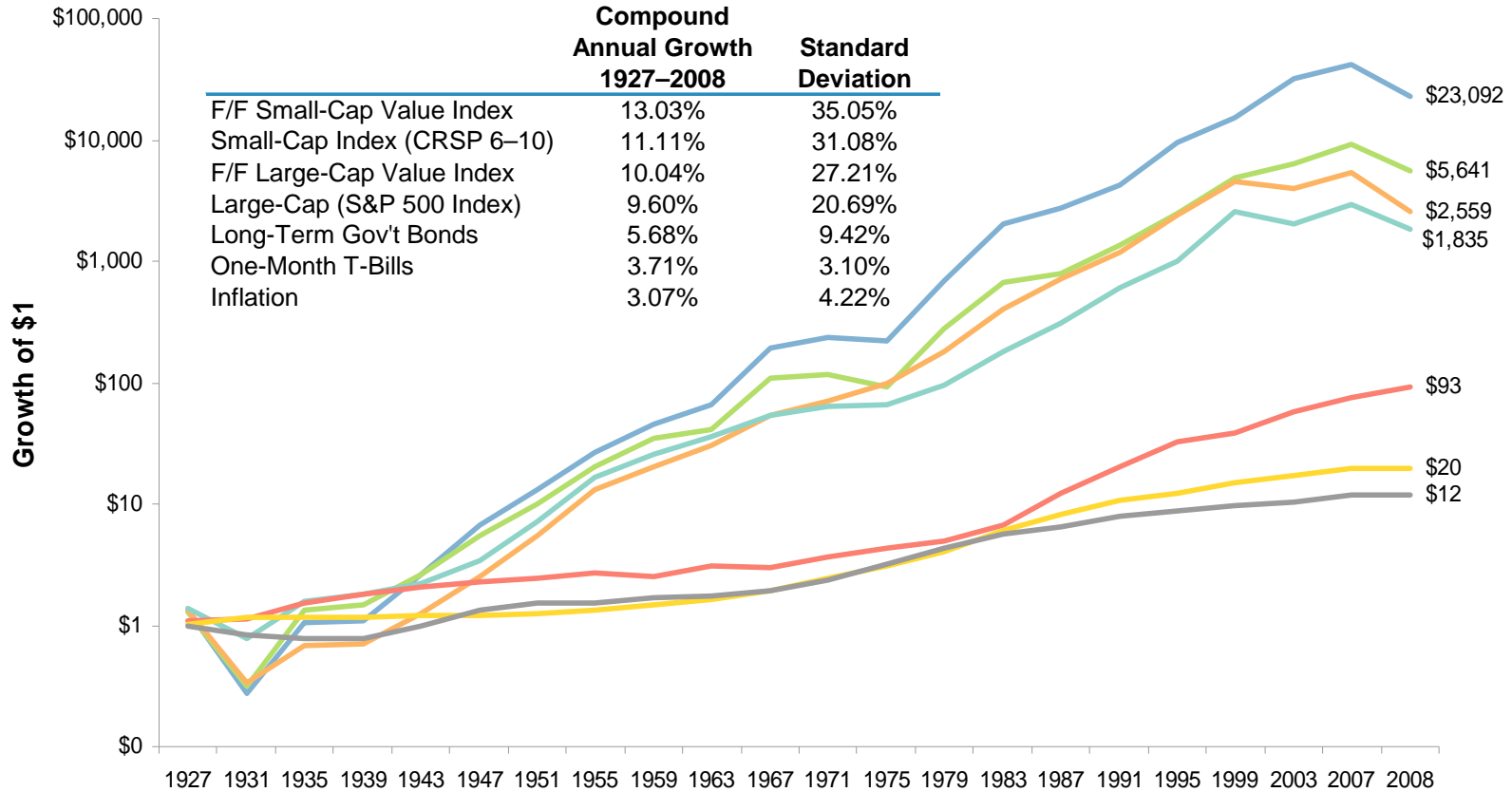
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Total return includes reinvestment of dividends.

See *Sources and Descriptions of Data* at the end of this booklet.

Distinct Asset Classes Provide Distinct Return Profiles



- F/F Small-Cap Value Index: Combined risk factors provide powerful premium returns
- Small-Cap Index (CRSP 6–10): Higher risk, greater return
- F/F Large-Cap Value Index: Recognizable premium return
- Large-Cap (S&P 500 Index): Bumpy ride, but wealth-creating
- Long-Term Gov't Bonds: Poor risk/reward trade-off
- One-Month T-Bills: No growth after taxes and inflation
- Inflation

Source: Dimensional Fund Advisors.

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The Carhart Study

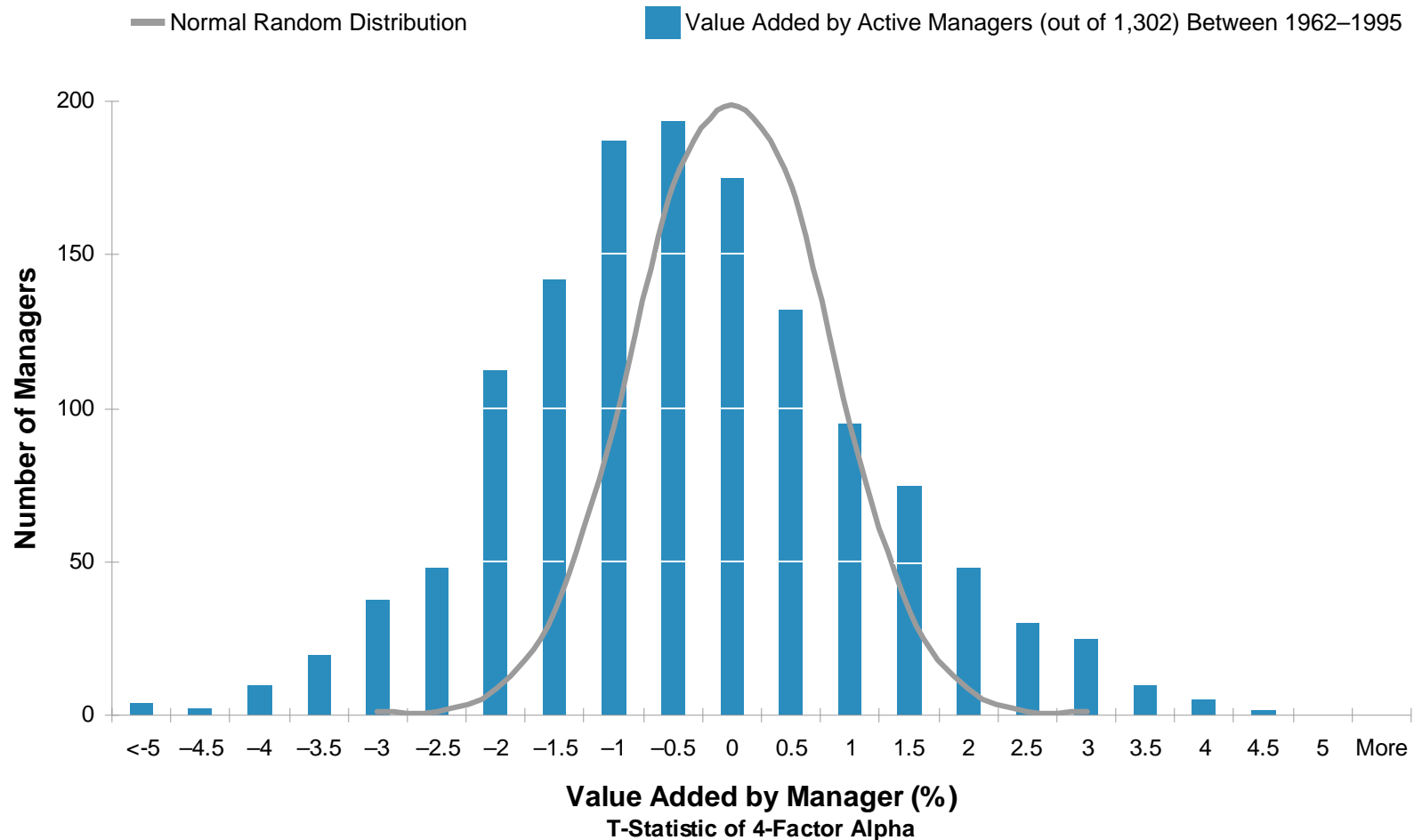
Study Details

- A 1997 study by Mark Carhart of the University of Chicago showed that common factors in stock returns and investment expenses almost completely explain continuity in equity mutual funds' returns.

Relevant Study Findings

- Most funds underperform by the amount of their investment expenses.
- The investment costs of expense ratios, transaction costs and load fees all have a direct, negative impact on performance.

Does Active Management Add Value?



“Value Added by Active Managers” distribution is shifted by the amount of average expenses.

Passive Approach

Benefits of Passive Investing

- Lower portfolio turnover
- Lower operating expenses
- Lower transaction costs
- Greater tax efficiency
- Greater control of asset allocation
- Broad diversification and risk reduction within asset classes

Comparing Active and Passive Management

Active management tries to time the market or select individual stocks that have been mispriced.

The Goal: To beat the market.

Passive management designs portfolios that hold a representative sample of securities in an index or asset class to closely match its performance.

The Goal: To capture the returns of markets and minimize costs.

Translating Modern Portfolio Theory

Frequently Asked Questions

1. **Can investors gain a competitive edge by trying to exploit market anomalies?**

According to professor Kenneth French, of the Fama-French three-factor model, it's not worth it to even try.

French said, “Do I think it’s a good use of my time to try to identify mistakes in the market? Absolutely not.”¹

2. **Do riskier assets provide higher returns?**

Risk and expected return are related. Riskier assets provide higher *expected* returns. They will not necessarily provide higher returns. That is the nature of risk.

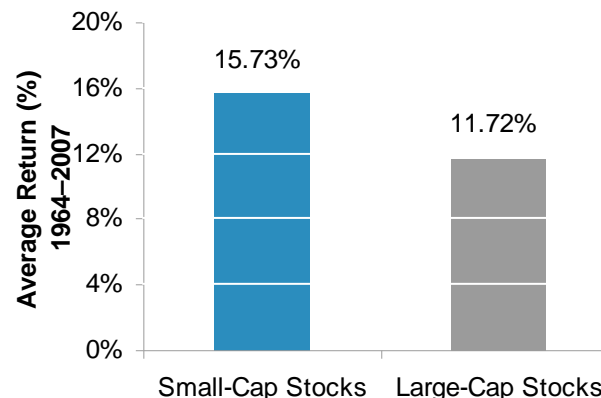
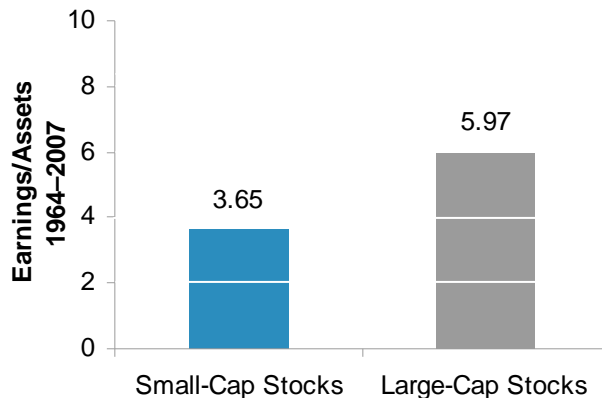
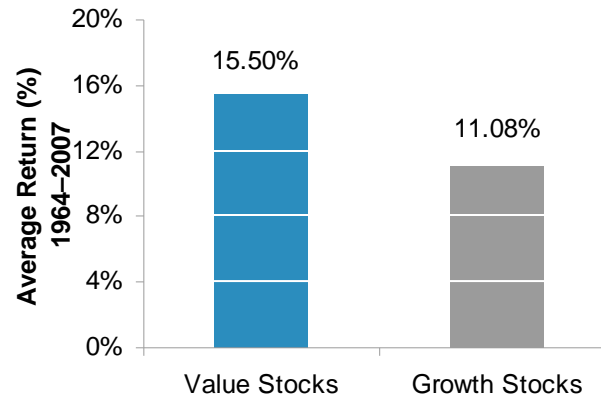
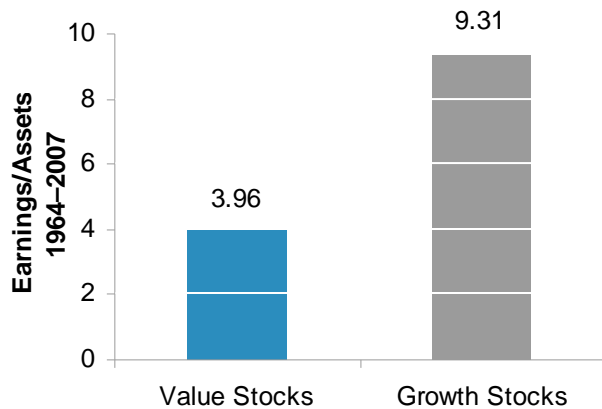
3. **Is it prudent to add high-risk asset classes to a portfolio?**

Adding noncorrelating asset classes to a portfolio — even those that are high risk on their own — can reduce its volatility and increase expected return.

¹ Christina Grotheer, *Mission: Improbable*. CFA Magazine, Sept–Oct. 2005.
Information from sources deemed reliable, but its accuracy cannot be guaranteed.

Risk and Expected Return

Risk and Expected Return Are Related



Company Size and Financial Strength: Excellent Earnings vs. Excellent Returns

- Small-cap and value stocks have lower relative earnings than large-cap and growth stocks.
- Their lower earnings result in higher costs of capital, so they provide higher expected returns to investors that provide that capital.

Source: Dimensional Fund Advisors (data compiled by DFA from Fama-French indices).

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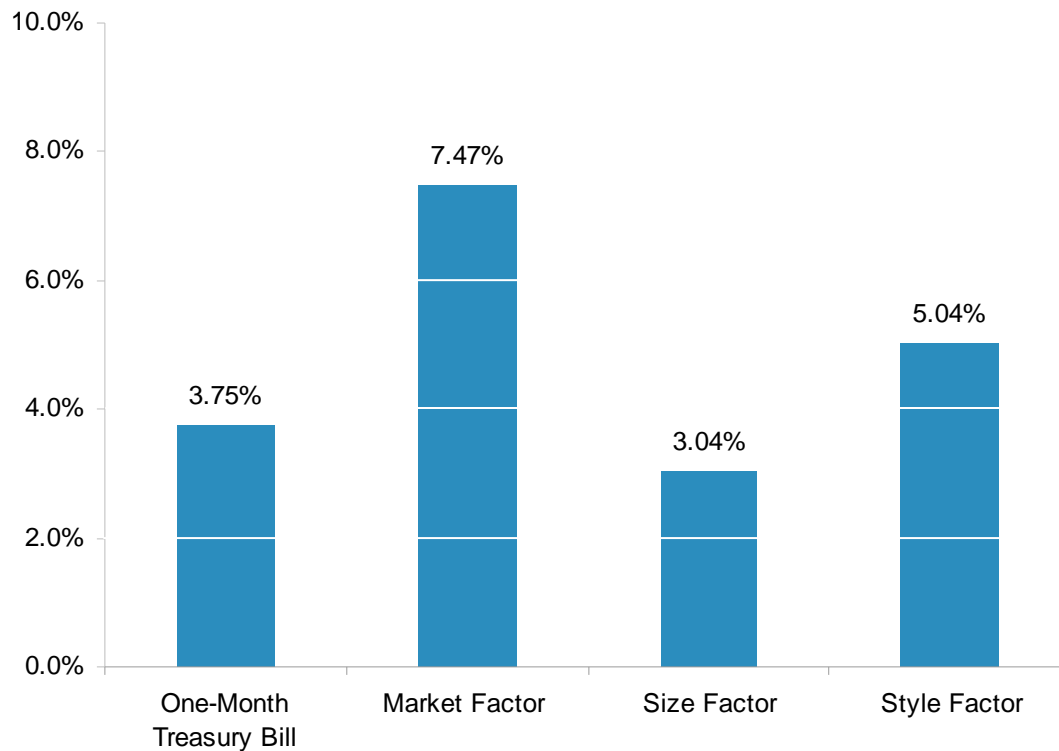
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See Sources and Descriptions of Data at the end of this booklet.

Risk and Expected Return

Three Factors Determine the Majority of a Balanced Investment Portfolio's Expected Return
Average Annual Returns 1927–2008



Premiums

Market Factor

All-equity universe minus T-bills

Size Factor

Small-cap stocks minus large-cap stocks

Style Factor

Value stocks minus growth stocks

Source: Dimensional Fund Advisors (Equity Factors compiled by DFA from Fama-French).

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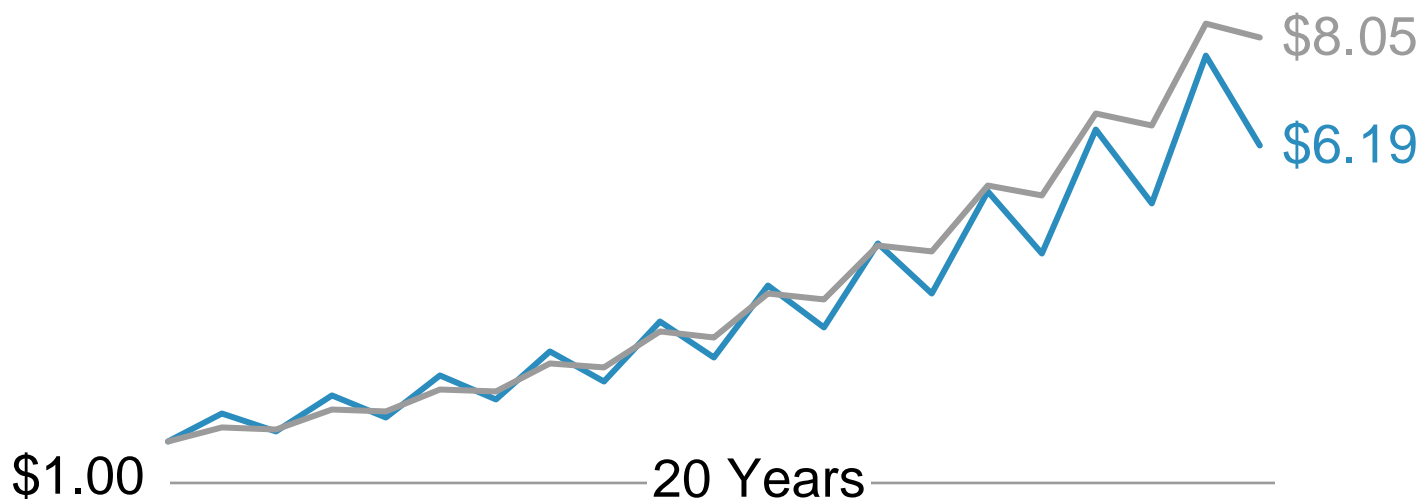
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Portfolio Construction

Significant Volatility Can Have a Negative Impact on Returns

	Portfolio 1	Portfolio 2
Average Annual Return	15%	12%
Standard Deviation	35.9%	15.4%
Compound Growth Rate	9.5%	11%



Simulated Strategy — Risk Target 3

Simulated Strategy Evolution

Similar Profiles, Varied Allocations

Value-3 — Risk Target 3

	1997	2007	2008
Equity	100.0%	100.0%	100.0%
Domestic Market	70.0%	70.0%	60.0%
U.S. Market Equity (Core-2)		33.5	26.5
U.S. Large-Cap	15.0	0.0	0.0
U.S. Large-Cap Value	20.0	12.5	8.5
U.S. Small-Cap	10.0	4.5	0.0
U.S. Small-Cap Value	25.0	19.5	25.0
International Developed Markets	26.0%	26.0%	35.0%
International Market Equity (Core)		8.5	11.2
International Large-Cap	0.0	0.0	0.0
International Large-Cap Value	14.0	8.5	11.6
International Small-Cap	4.0	0.0	0.0
International Small-Cap Value	8.0	9.0	12.2
Emerging Markets	4.0%	4.0%	5.0%
Emerging Markets Equity (Core)		4.0	5.0
Emerging Markets	2.0	0.0	0.0
Emerging Markets Small-Cap	0.0	0.0	0.0
Emerging Markets Value	2.0	0.0	0.0

Source: Dimensional Fund Advisors. Data as of December 31, 2008.
 Information from sources deemed reliable, but its accuracy cannot be guaranteed.
 See preceding "Important Disclosures Regarding Simulated Strategies."

Simulated Portfolio Construction

Simulated Strategy* — Risk Target 3 2008

	Portfolio (%)			
	Conservative	Moderate	Aggressive	All-Stock
Equity	40.0	60.0	80.0	100.0
Domestic	24.0	36.0	48.0	60.0
Market Equity				
DFA US Core Equity-2 Portfolio	10.5	16.0	21.0	26.5
Large-Cap Value				
DFA US Large Cap Value Portfolio III	3.5	5.0	7.0	8.5
Small-Cap Value				
DFA US Targeted Value Portfolio	10.0	15.0	20.0	25.0
International	16.0	24.0	32.0	40.0
Market Equity				
DFA International Core Equity Portfolio	4.5	6.7	9.0	11.2
Large-Cap Value				
DFA International Value Portfolio III	4.5	7.0	9.3	11.6
Small-Cap Value				
DFA International Small Cap Value Portfolio	5.0	7.3	9.7	12.2
Emerging Markets Equity				
DFA Emerging Markets Core Equity Portfolio	2.0	3.0	4.0	5.0
Fixed Income	60.0	40.0	20.0	0.0
DFA Two-Year Global Fixed Income Portfolio	30.0	20.0	10.0	0.0
DFA Inflation-Protected Securities	30.0	20.0	10.0	0.0

Source: Dimensional Fund Advisors.

Information from sources deemed reliable, but its accuracy cannot be guaranteed.

*See preceding "Important Disclosures Regarding Simulated Strategies."

Simulated Portfolio Performance

Simulated Strategy* — Risk Target 3 2008

Annualized Returns for Periods Ending 12/31/08

Gross Returns

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)	S&P 500/ MSCI EAFE Index**
One Year	-15.03%	-23.22%	-31.41%	-39.58%	-39.55%
Three Years	-0.58%	-3.10%	-5.95%	-9.16%	-7.88%
Standard Deviation	7.84%	11.50%	15.43%	19.63%	17.82%
Five Years	2.67%	2.28%	1.57%	0.53%	-0.58%
Standard Deviation	6.81%	10.11%	13.60%	17.29%	15.23%
Ten Years	5.02%	5.37%	5.51%	5.41%	-0.44%
Standard Deviation	9.22%	13.94%	18.74%	23.60%	22.70%

Growth of \$1,000 Invested for Periods Ending 12/31/08

Gross Returns

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)	S&P 500/ MSCI EAFE Index**
One Year	\$850	\$768	\$686	\$604	\$605
Three Years	\$983	\$910	\$832	\$750	\$782
Five Years	\$1,141	\$1,119	\$1,081	\$1,027	\$971
Ten Years	\$1,633	\$1,687	\$1,709	\$1,693	\$957

Source: Dimensional Fund Advisors.

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Simulated strategy total return includes reinvestment of dividends and capital gains distributions. Index total return includes reinvestment of dividends.

Simulated strategy allocations have evolved over time. Please see the appropriate Simulated Strategy Evolution slide to understand these evolutions and thus the makeup of the returns.

Portfolios shown do not include tax-managed funds. Standard deviations for three- and five-year periods are annualized from quarterly standard deviations.

*See preceding "Important Disclosures Regarding Simulated Strategies."

**60 percent S&P 500 Index/40 percent MSCI EAFE Index.

Simulated Portfolio Performance

Simulated Strategy* — Risk Target 3 2008

Annualized Returns for Periods Ending 12/31/08

With 1% Advisory Fee

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)
One Year	-15.88%	-23.98%	-32.09%	-40.19%
Three Years	-1.58%	-4.06%	-6.88%	-10.07%
Standard Deviation	7.82%	11.47%	15.40%	19.58%
Five Years	1.65%	1.26%	0.56%	-0.47%
Standard Deviation	6.79%	10.08%	13.57%	17.24%
Ten Years	3.98%	4.32%	4.45%	4.36%
Standard Deviation	9.13%	13.80%	18.55%	23.37%

Growth of \$1,000 Invested for Periods Ending 12/31/08

With 1% Advisory Fee

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)
One Year	\$841	\$760	\$679	\$598
Three Years	\$953	\$883	\$807	\$727
Five Years	\$1,085	\$1,064	\$1,028	\$977
Ten Years	\$1,477	\$1,527	\$1,546	\$1,532

Source: Dimensional Fund Advisors.

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Total return includes reinvestment of dividends and capital gains distributions.

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