

# Cypress Asset Management, Inc. Fee Only Wealth Management

Mike Mahoney, CFP®



# 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 advisor has not managed client portfolios in this manner this entire period of time.]** 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. Advisor utilizes both tax-managed funds and corresponding funds that are not tax managed in constructing client accounts. The Simulated Strategies returns presented use fund returns that are not tax managed. 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 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.

# 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.

JOHN & JANE CLIENT 123 Main Street City, ST 98765-4320		ALL ACCOUNTS
<b>Portfolio Performance Review</b> (September 30, 2010 – December 31, 2010)		
<b>Beginning Value (September 30, 2010)</b>		<b>\$2,711,030.34</b>
Deposits	\$0.00	
Withdrawals	\$0.00	
<b>Net Deposit</b>		<b>\$0.00</b>
Dividend Income	\$13,484.51	
Interest Income	\$10,931.11	
<b>Total Income</b>		<b>\$24,415.62</b>
Management Fees	(\$13,076.66)	
Other Expenses	\$0.00	
<b>Total Expenses</b>		<b>(\$13,076.66)</b>
Beginning Accrued Income Value	\$7,149.38	
Accrued Income Paid	\$0.00	
Ending Accrued Income Value	\$3,094.75	
<b>Change in Accrued Income</b>		<b>(\$4,054.63)</b>
External Fee Payments		\$1,411.58
Capital Increase		\$171,688.45
<b>Ending Value (December 31, 2010)</b>		<b>\$2,827,385.92</b>
<b>Investment Gain</b>		<b>\$114,944.00</b>

Trailing Period Performance							
	4th Quarter 2010	Year To Date	Trailing 12 Months	Trailing 3 Years	Trailing 5 Years	Trailing 10 Years	Inception To Date*
Internal Rate of Return (Net)	7.16%	12.19%	12.19%	1.07%	3.35%	5.54%	5.87%
Time-Weighted Rate of Return (Net)	7.16%	12.19%	12.19%	1.07%	3.35%	5.54%	5.87%

\*Return Since Inception Date of 1/1/1997  
Returns are Net of Fees  
Returns for Periods Exceeding 12 Months are Annualized

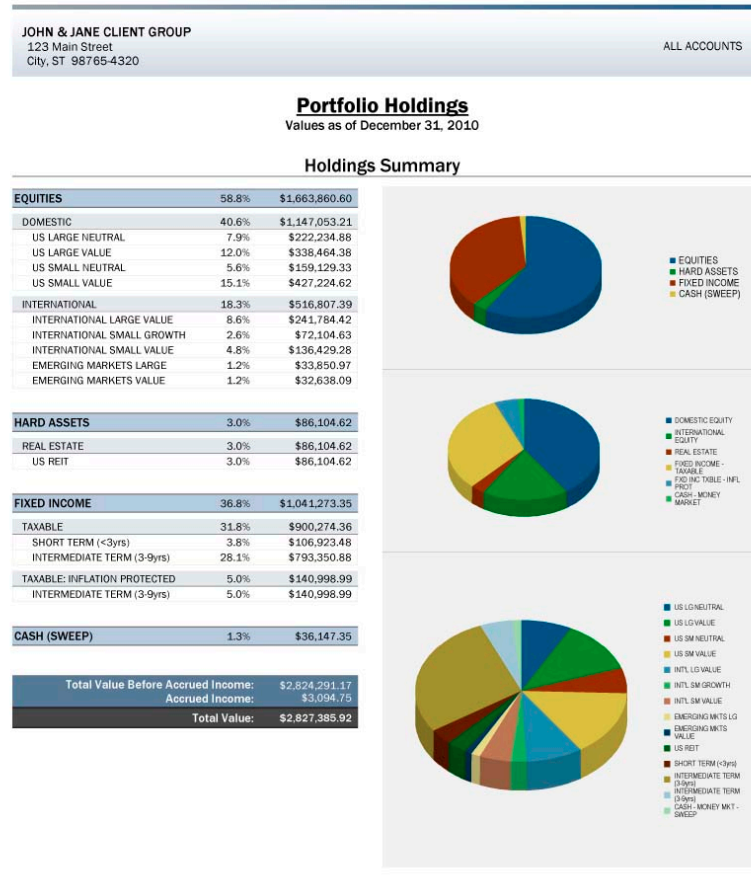
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# Sample Client Report

## 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>
\$0 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 to \$9,999,999	0.50%
\$10,000,000 or greater	0.40%
 Minimum Account:	 \$1,000,000

\*\*Client accounts where the total balance of all accounts is less than \$1,000,000 will be accepted only on a case by case basis.

# 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
- \$207 billion assets under management (as of December 31, 2010)

# Benefits of DFA's Tax Management

DFA Fund	Return Lost to Taxes (%)										10 Years Ending 2010
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Small Cap (DFSTX)	2.26	0.30	0.13	0.35	1.21	1.30	1.15	0.24	0.24	0.38	0.77
Large Value (DFLVX)	2.83	0.43	0.32	0.34	0.33	0.85	0.97	0.25	0.50	0.79	0.76
Small Value (DFSVX)	4.44	1.88	2.24	1.42	1.44	1.78	1.42	0.26	0.12	0.23	1.48
International Value (DFIVX)	1.32	0.71	0.67	0.65	1.05	1.66	1.31	0.46	0.68	0.98	0.95
Tax-Managed Small Cap (DFTSX)	0.12	0.02	0.01	0.02	0.04	0.12	1.45	0.16	0.14	0.28	0.25
Tax-Managed Marketwide Value (DTMMX)	0.36	0.15	0.08	0.16	0.22	0.45	0.61	0.23	0.39	0.54	0.32
Tax-Managed Targeted Value (DTMVX)	0.18	0.05	0.06	0.38	1.42	1.86	1.12	0.16	0.18	0.32	0.58
Tax-Managed International Value (DTMIX)	0.34	0.55	0.18	0.17	0.63	2.18	2.22	0.18	0.19	0.95	0.73
											<b>Nine Years Ending 2010</b>
US Large Company (DFUSX)	0.40	0.45	0.33	0.36	0.31	0.63	0.61	0.31	0.53	0.70	0.47
Tax-Managed US Equity (DTMEX)	N/A	0.16	0.13	0.20	0.20	0.46	0.48	0.22	0.41	0.70	0.32

Source: Dimensional Fund Advisors. Data as of December 31, 2010.

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
U.S. Large-Cap	DFA US Large Company Portfolio (DFUSX)	15.00	-2.71	2.37	1.40
	Vanguard 500 Index Fund Admiral Shares (VFIAX) <sup>1</sup>	15.05	-2.80	2.31	1.40
U.S. Large-Cap Value	DFA US Large Cap Value Portfolio III (DFUVX)	20.37	-2.38	1.75	5.44
	Vanguard Value Index Fund Admiral Shares (VVIAX) <sup>1</sup>	14.45	-4.24	1.47	2.08
U.S. Small-Cap	DFA US Micro Cap Portfolio (DFSCX)	31.29	2.09	3.21	9.63
	DFA US Small Cap Portfolio (DFSTX)	30.70	4.47	5.21	8.33
	Vanguard Small-Cap Index Fund Admiral Shares (VSMAX) <sup>1</sup>	27.89	3.72	5.52	7.34
U.S. Small-Cap Value	DFA US Small Cap Value Portfolio (DFSVX)	30.90	3.41	3.71	11.14
	Vanguard Small-Cap Value Index Fund (VISVX)	24.82	3.39	4.14	7.95
Emerging Markets	DFA Emerging Markets Portfolio (DFEMX)	21.82	2.06	13.31	15.60
	DFA Emerging Markets Value Portfolio (DFEVX)	22.06	2.63	16.77	21.12
	Vanguard Emerging Markets Stock Index Fund Admiral Shares (VEMAX)	18.99	-0.32	12.27	15.46
Real Estate	DFA Real Estate Securities Portfolio (DFREX)	28.67	1.09	2.59	10.50
	Vanguard REIT Index Fund Admiral Shares (VGSLX) <sup>3</sup>	28.49	1.66	3.49	10.66

Source: Dimensional Fund Advisors and Morningstar.

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Data as of December 31, 2010.

<sup>1</sup>Admiral shares inception date November 13, 2000. Investor shares returns for the time period before inception of Admiral shares.

<sup>2</sup>Admiral shares inception date June 23, 2006. Investor shares returns for the time period before inception of Admiral shares.

<sup>3</sup>Admiral shares inception date November 12, 2001. Investor shares returns for the time period before inception of Admiral shares.

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.

# Part 1: The Ability to Take Risk

## Guidelines for Equity Allocations

<b>Investment Horizon</b>	<b>Maximum Equity Allocation</b>
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

<b>Maximum Tolerable Loss</b>	<b>Maximum Equity Exposure</b>
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

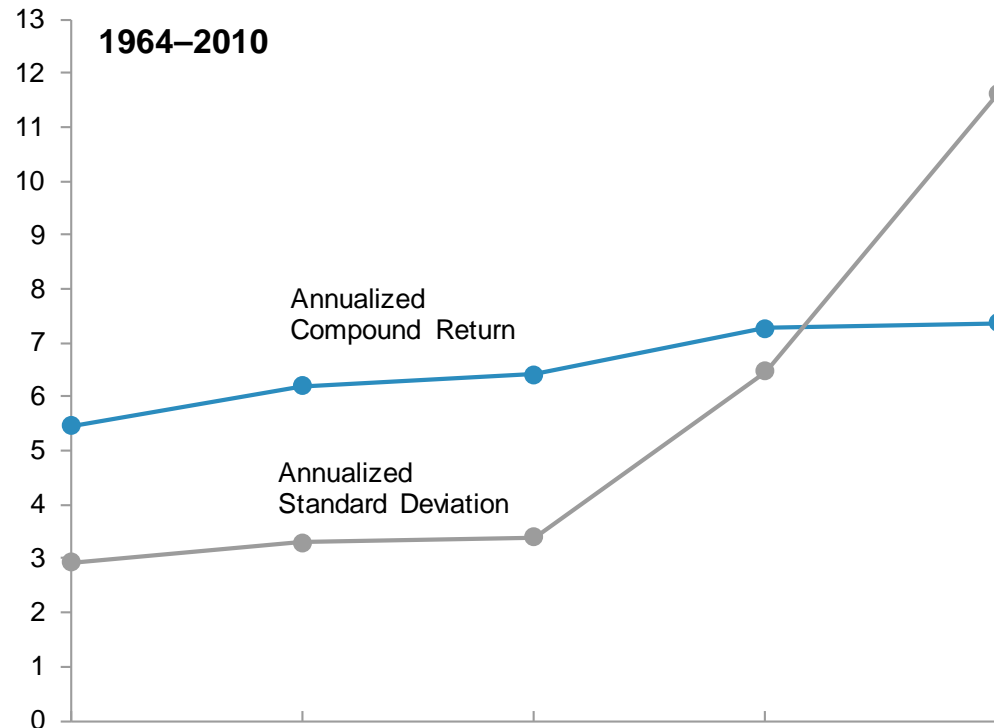
<u>Financial Goal*</u>	<u>Equity Allocation*</u>
4.25%	0%
5.25%	20%
6.25%	40%
7.25%	60%
8.50%	80%
9.50%	100%

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 (2.40 percent) and, therefore, **subject to change**. The expected returns numbers were calculated based on current assumptions and then rounded.

# 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.



<b>Maturity</b>	<b>One-Month U.S. Treasury Bill Index</b>	<b>BofA ML Six-Month U.S. Treasury Bill Index</b>	<b>BofA ML One-Year U.S. Treasury Note Index</b>	<b>Five-Year U.S. Treasury Note Index</b>	<b>Long-Term Gov't Bond Index</b>
<b>Annualized Compound Return (%)</b>	5.45	6.20	6.41	7.27	7.37
<b>Annualized Standard Deviation (%)</b>	2.93	3.29	3.39	6.47	11.60

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.

# 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.<sup>1</sup>

**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.<sup>2</sup>

**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.<sup>3</sup>

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

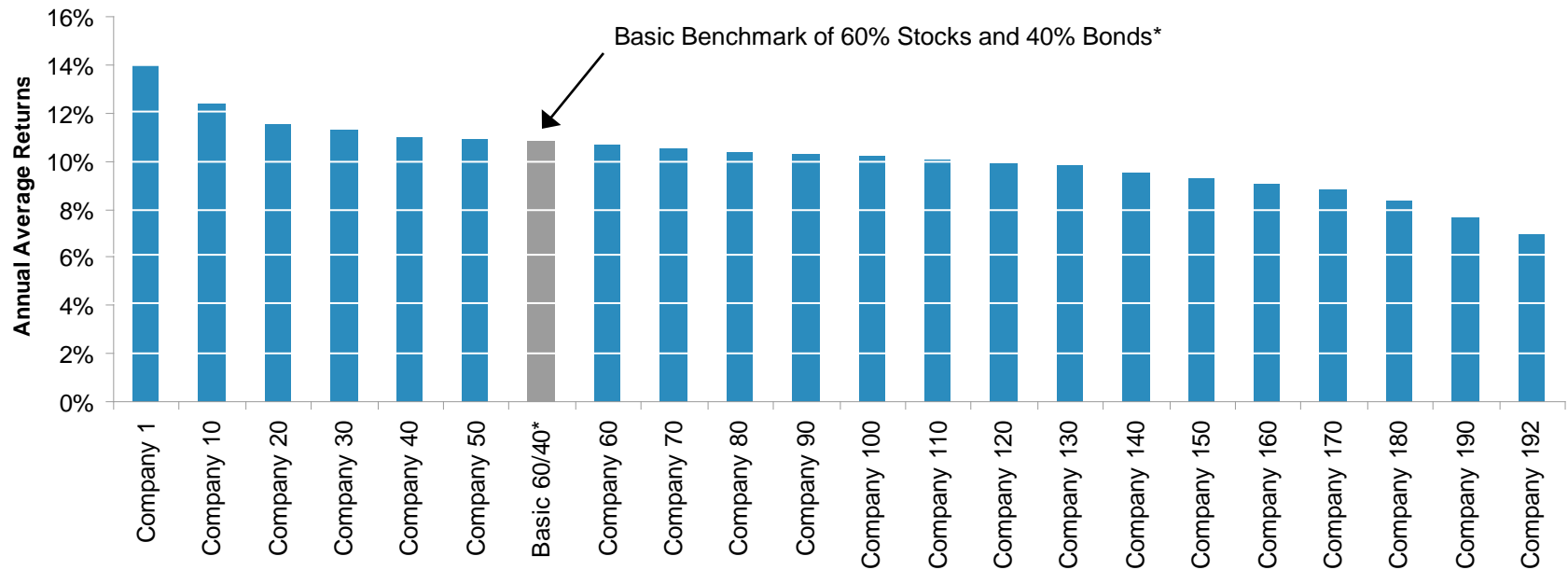
<sup>1</sup> Brad M. Barber and Terrance Odean, *Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors*. *Journal of Finance*, April 2000.

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

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

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# 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.

# Can You Pick the Next Winner?

## Asset Class Returns 1986–2010

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
65.4	40.7	38.6	38.3	29.1	48.5	37.2	46.9	16.2	39.9	37.1	36.1	28.6	40.9	49.8	27.1	32.1	79.3	33.2	25.6	36.0	32.7	-37.0	58.9	33.5
59.5	35.1	30.1	31.5	-3.1	47.1	21.5	34.4	14.8	37.6	33.9	34.9	23.1	33.4	31.0	16.4	3.6	69.2	32.1	22.6	33.0	8.0	-39.2	51.5	31.0
19.7	23.8	27.9	30.8	-16.0	31.3	15.1	28.1	5.3	35.3	25.5	33.4	13.4	33.0	15.6	12.3	-2.9	66.0	30.6	15.1	26.3	6.4	-39.8	44.8	28.1
19.4	5.3	26.7	29.0	-17.9	30.5	14.2	26.4	2.7	32.5	23.0	24.3	10.2	30.2	10.8	1.6	-13.7	60.2	25.3	13.8	23.8	5.5	-41.9	43.0	20.7
18.5	5.2	25.9	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	18.4	7.6	22.2	-2.2	-45.1	28.5	18.7
6.9	-6.0	22.8	12.0	-23.4	9.9	4.4	15.1	1.3	12.2	19.6	0.4	-5.7	14.0	-4.3	-15.4	-17.0	31.9	17.3	6.2	17.6	-7.0	-46.1	26.5	15.1
4.4	-6.6	17.5	11.1	-23.4	5.8	-9.8	10.1	1.3	10.3	10.2	-14.1	-17.0	8.6	-9.1	-16.7	-19.2	28.7	16.1	5.3	15.8	-13.5	-46.5	25.6	13.3
2.0	-13.0	16.8	2.7	-27.3	-6.1	-20.6	-12.3	-3.1	1.0	2.8	-14.5	-35.8	-2.6	-12.3	-31.9	-22.1	20.7	10.9	4.9	-15.1	-17.6	-47.1	13.5	9.0

 S&P 500 Index

 DFA U.S. Large Cap Value Index

 DFA U.S. Micro Cap Index

 DFA U.S. Small Cap Value Index

 DJ Wilshire REIT Index

 F/F Int'l Value Index

 DFA Int'l Small Cap Index

 S&P GSCI™ Index

Source: Dimensional Fund Advisors.

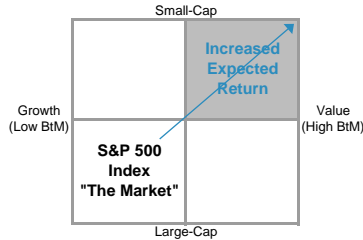
Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio nor do indices represent results of actual trading.

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Total return includes reinvestment of dividends.

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

# Different Asset Classes Have Different Expected Returns

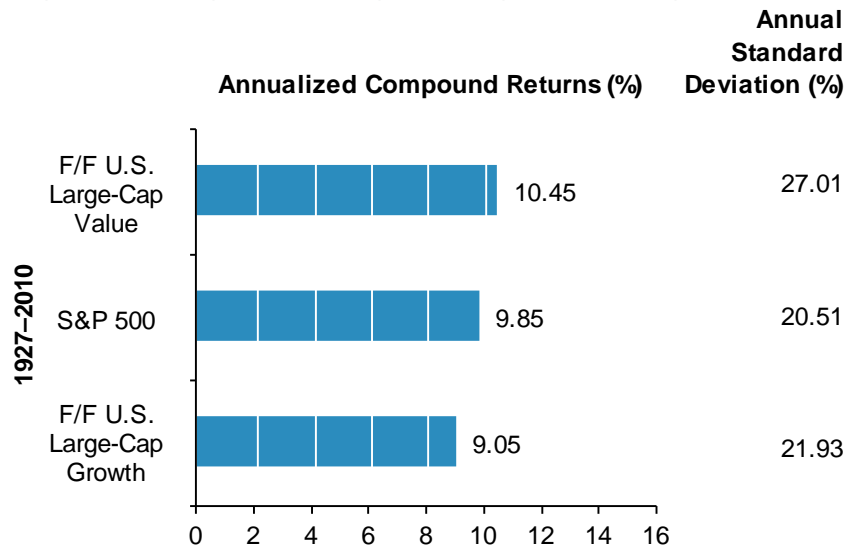


Value stocks and small-cap stocks have increased expected returns when compared to growth stocks and large-cap stocks.

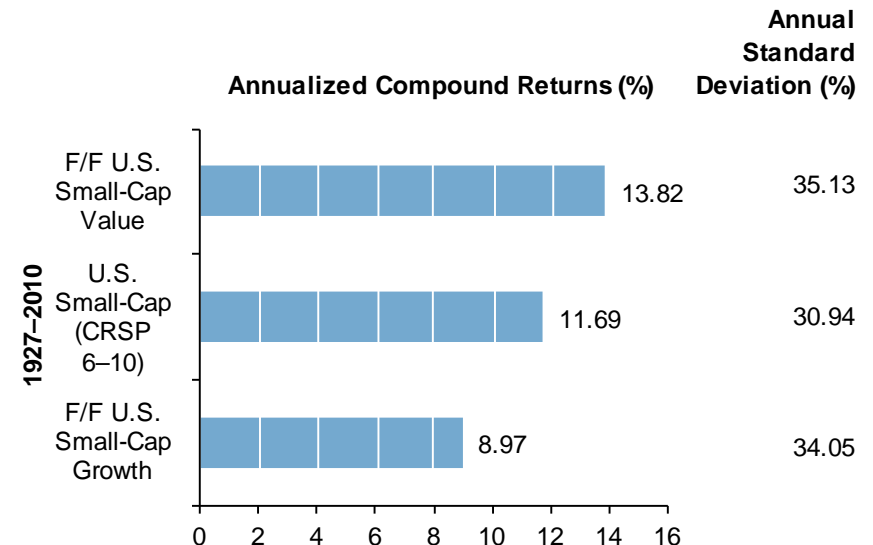
Historically, equity returns have been determined to a great extent by two factors:

- Size (small-cap or large-cap)
- Style (growth or value)

Comparing Large-Cap Indexes



Comparing Small-Cap Indexes



Source: Dimensional Fund Advisors.

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# The Carhart Study

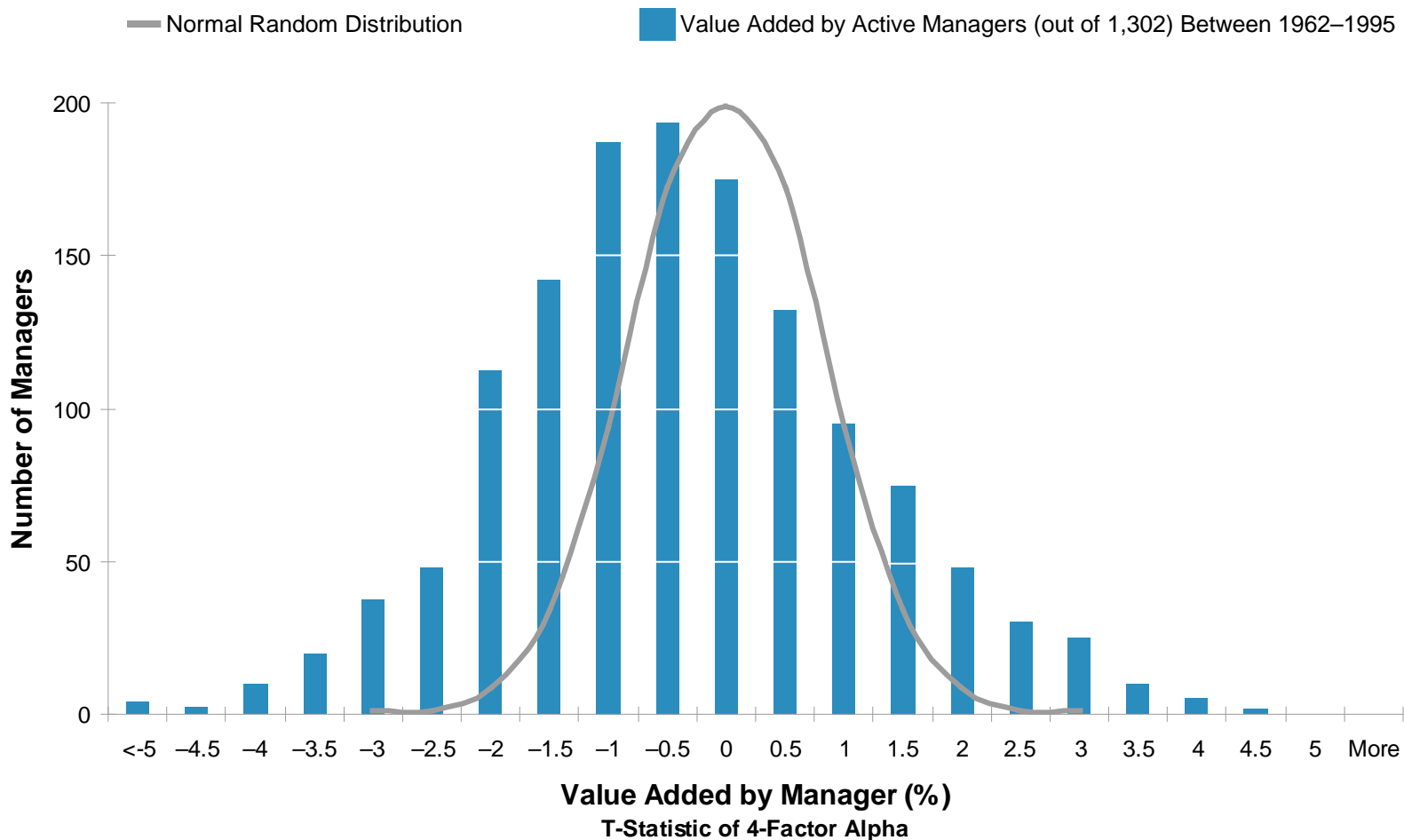
## Study Details

- 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.

# 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."<sup>1</sup>

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

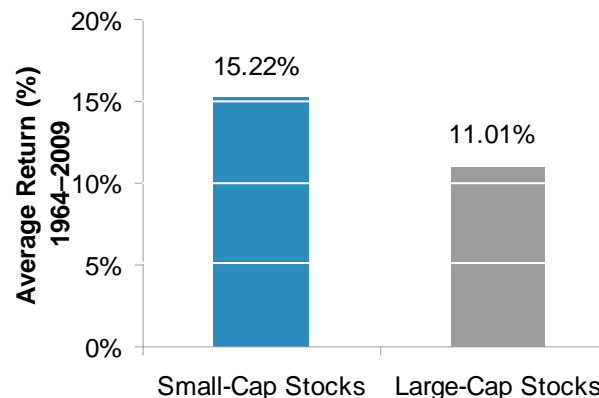
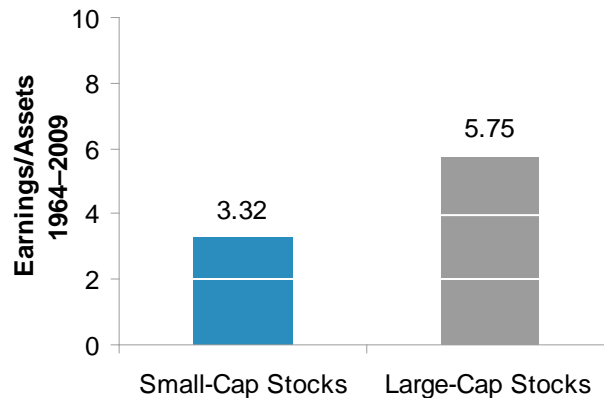
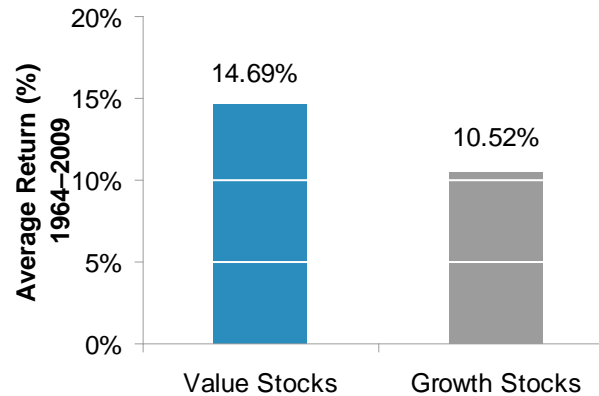
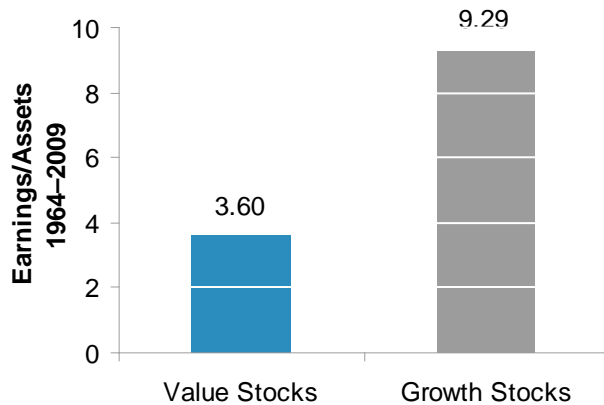
Risk and expected return are related. Riskier assets provide higher *expected* returns. They will not necessarily provide higher returns. That is the nature of risk.

### 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.

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

# 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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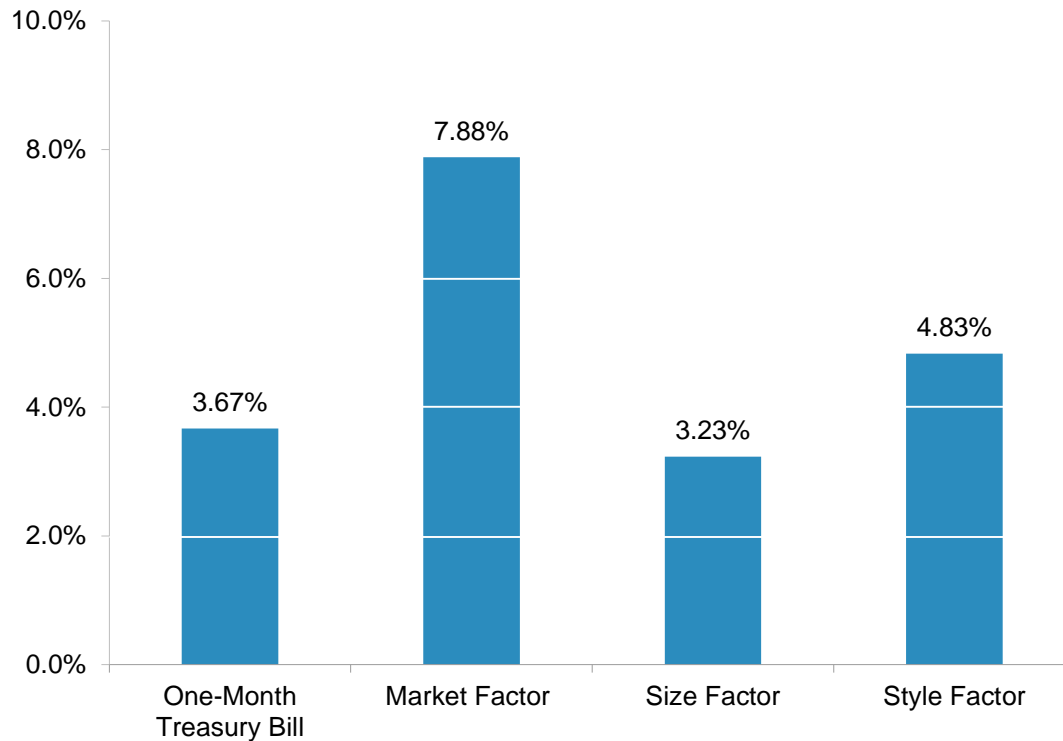
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# Risk and Expected Return

## Three Factors Determine the Majority of a Balanced Investment Portfolio's Expected Return

Average Annual Returns 1927–2010



## 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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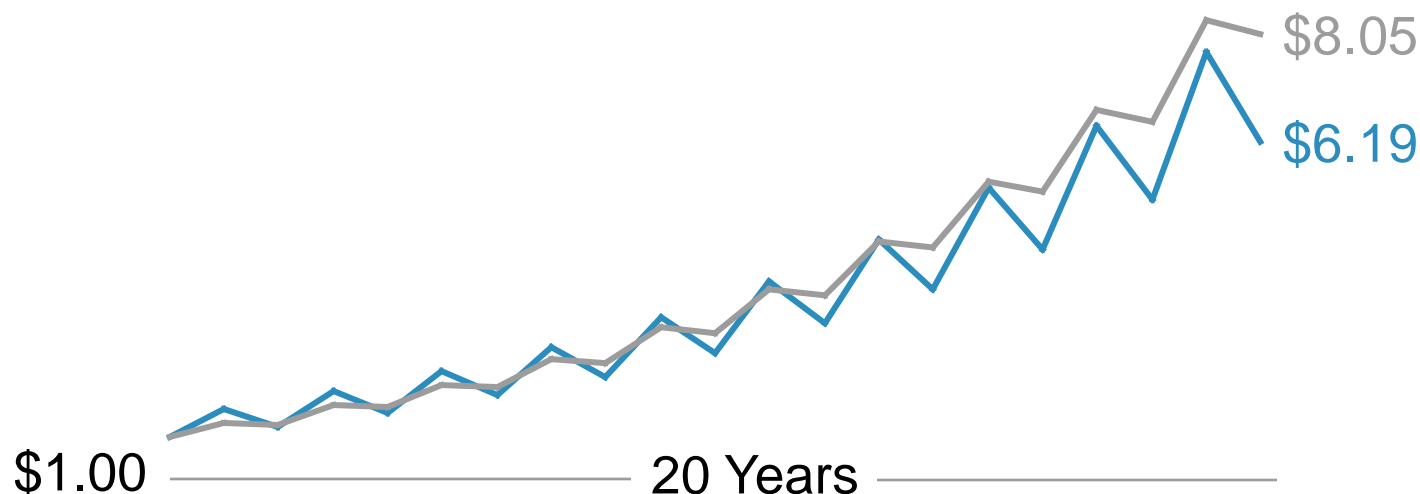
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# Portfolio Construction

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

Series A — 60/40 U.S./Int'l Equity Allocation

# Simulated Strategy Evolution

## Similar Profiles, Varied Allocations

### Value-3 — Risk Target 3

	1997	2007	2008	2011
<b>Equity</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Domestic Market</b>	<b>70.0%</b>	<b>70.0%</b>	<b>60.0%</b>	<b>60.0%</b>
U.S. Market Equity (Core-2)		33.5	26.5	26.5
U.S. Large-Cap	15.0	0.0	0.0	0.0
U.S. Large-Cap Value	20.0	12.5	8.5	8.5
U.S. Small-Cap	10.0	4.5	0.0	0.0
U.S. Small-Cap Value	25.0	19.5	25.0	25.0
<b>International Developed Markets</b>	<b>26.0%</b>	<b>26.0%</b>	<b>35.0%</b>	<b>30.0%</b>
International Market Equity (Core)		8.5	11.2	6.2
International Large-Cap	0.0	0.0	0.0	0.0
International Large-Cap Value	14.0	8.5	11.6	11.6
International Small-Cap	4.0	0.0	0.0	0.0
International Small-Cap Value	8.0	9.0	12.2	12.2
<b>Emerging Markets</b>	<b>4.0%</b>	<b>4.0%</b>	<b>5.0%</b>	<b>10.0%</b>
Emerging Markets Equity (Core)		4.0	5.0	10.0
Emerging Markets	2.0	0.0	0.0	0.0
Emerging Markets Small-Cap	0.0	0.0	0.0	0.0
Emerging Markets Value	2.0	0.0	0.0	0.0

Source: Dimensional Fund Advisors. Data as of December 31, 2010.  
 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

	Portfolio (%)			
	Conservative	Moderate	Aggressive	All-Stock
<b>Equity</b>	<b>40.0</b>	<b>60.0</b>	<b>80.0</b>	<b>100.0</b>
<b>Domestic</b>	<b>24.0</b>	<b>36.0</b>	<b>48.0</b>	<b>60.0</b>
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
<b>International</b>	<b>16.0</b>	<b>24.0</b>	<b>32.0</b>	<b>40.0</b>
Market Equity: DFA International Core Equity Portfolio	2.5	3.7	5.0	6.2
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	4.0	6.0	8.0	10.0
<b>Fixed Income</b>	<b>60.0</b>	<b>40.0</b>	<b>20.0</b>	<b>0.0</b>
DFA Two-Year Global Fixed Income Portfolio	30.0	20.0	0.0	0.0
DFA Five-Year Global Fixed Income Portfolio	0.0	0.0	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 Strategy — Risk Target 3/Series A (page 2 of 4). Evolution shown on previous page. Returns shown on following pages.

# Simulated Portfolio Performance

## Simulated Strategy\* — Risk Target 3

### Annualized Returns for Periods Ending 12/31/10

#### Gross Returns

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)	S&P 500/ MSCI EAFE Index**
One Year	10.96%	14.29%	17.97%	20.96%	12.14%
Three Years	3.75%	2.96%	1.84%	-0.14%	-4.47%
Standard Deviation	12.09%	18.27%	24.83%	31.57%	26.92%
Five Years	5.25%	5.28%	5.08%	4.32%	2.43%
Standard Deviation	9.66%	14.60%	19.81%	25.16%	21.30%
Ten Years	6.48%	7.52%	8.36%	8.83%	2.32%
Standard Deviation	10.12%	15.05%	20.10%	25.12%	22.92%

### Growth of \$1,000 Invested for Periods Ending 12/31/10

#### Gross Returns

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)	S&P 500/ MSCI EAFE Index**
One Year	\$1,110	\$1,143	\$1,180	\$1,210	\$1,121
Three Years	\$1,117	\$1,092	\$1,056	\$996	\$872
Five Years	\$1,291	\$1,293	\$1,281	\$1,236	\$1,127
Ten Years	\$1,873	\$2,064	\$2,231	\$2,331	\$1,258

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.

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 make-up 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

### Annualized Returns for Periods Ending 12/31/10

With 1% Advisory Fee

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)	S&P 500/ MSCI EAFE Index**
One Year	9.85%	13.15%	16.80%	19.76%	12.14%
Three Years	2.71%	1.94%	0.83%	-1.13%	-4.47%
Standard Deviation	12.06%	18.23%	24.77%	31.50%	26.92%
Five Years	4.20%	4.23%	4.04%	3.28%	2.43%
Standard Deviation	9.64%	14.57%	19.76%	25.10%	21.30%
Ten Years	5.42%	6.44%	7.28%	7.75%	2.32%
Standard Deviation	10.02%	14.90%	19.90%	24.87%	22.92%

### Growth of \$1,000 Invested for Periods Ending 12/31/10

With 1% Advisory Fee

	Conservative (40/60)	Moderate (60/40)	Aggressive (80/20)	All-Stock (100/0)	S&P 500/ MSCI EAFE Index**
One Year	\$1,099	\$1,131	\$1,168	\$1,198	\$1,121
Three Years	\$1,084	\$1,059	\$1,025	\$966	\$872
Five Years	\$1,228	\$1,230	\$1,219	\$1,175	\$1,127
Ten Years	\$1,695	\$1,867	\$2,019	\$2,109	\$1,258

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.

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. This portfolio does not include the deduction of advisory fees.

# Important Disclosures Regarding Simulated Strategies

The preceding 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 advisor has not managed client portfolios in this manner this entire period of time.]** 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. Advisor utilizes both tax-managed funds and corresponding funds that are not tax managed in constructing client accounts. The Simulated Strategies returns presented use fund returns that are not tax managed. 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 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.

# 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 Bank of America Merrill Lynch.

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

### One-Year Treasury Note Index

Courtesy of CRSP, DFA and Bank of America Merrill Lynch.

July 1963–May 1991:	CRSP/DFA.
June 1991–June 2000:	Bank of America Merrill Lynch One-Year US Treasury Bill Index.
July 2000–present:	Bank of America 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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## Bank of America Merrill Lynch Three-Month US Treasury Bill Index

Courtesy of Bank of America Merrill Lynch.

January 1978–present:	Bank of America 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 Indexes

Courtesy of Bank of America Merrill Lynch, Citigroup and Barclays Capital.

January 1973–December 1989:	Bank of America 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.

## Fixed Income Allocation for Simulated Strategies

January 1997–December 2006:	100 percent DFA Two-Year Global (DFGFY).
January 2007–December 2009:	50 percent DFA Two-Year Global (DFGFY). 50 percent DFA Inflation-Protected Securities (DIPSX).
January 2010–present:	80-20 allocation: 50 percent DFA Five-Year Global (DFGBX). 50 percent DFA Inflation-Protected (DIPSX). All other allocations: 50 percent DFA Two-Year Global (DFGFY). 50 percent DFA Inflation-Protected Securities (DIPSX).

## 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, annual updates work by Roger G. Ibbotson and Rex A. Sinquefeld. Used with permission. All rights reserved.

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