The Fundamentals of Asset Class Investing

The first goal of any financial plan should be to avoid outliving your money.

Investing is About You

We are living longer.

No matter what your age, you can expect to live much longer than the generations before you. For example, the typical 65-year old couple today has a 30-year joint life expectancy, meaning there is a high probability that at least one of them will live to age 95. Moreover, there are more people living to the age of 100 than ever before.

This increased longevity has important financial implications.

Obviously, if you're living longer, your money needs to last as long as you do! Therefore, the first goal of any financial plan should be to avoid outliving your money.

We're not just living longer, we're healthier and more active than the generations before us. Many retirees participate in recreational activities, get involved in volunteering or even enjoy a second or third career. All of this should be taken into account within your plan.

How you choose to invest your money for the long term could have major implications for your overall success.

The difference between Active and Passive investing comes down to one thing.

Results.

Two Fundamental Ways to Invest

Active Management (Speculative)

Active managers try to beat the markets through buying what they believe to be the “right” investments and avoiding the “wrong” ones and by market timing (getting in and out of the market at the “right” time).

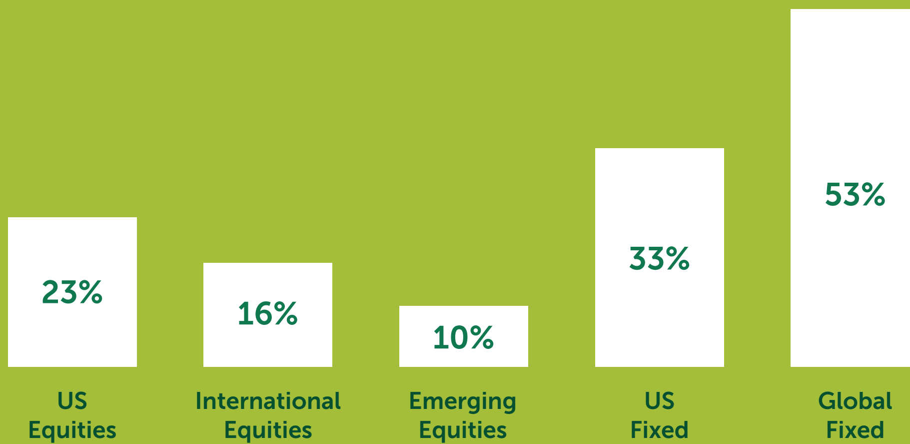
Passive Management (Market Based)

Passive managers don’t try to beat the market, but aim to capture the market’s returns. They seek to maximize diversification and focus on keeping costs low in order to achieve greater potential returns.

ACTIVE	PASSIVE
Stock Picking	Diversification
Market Timing	Tax Efficiency

Active vs. Passive Investing

PERCENTAGE OF ACTIVELY-MANAGED FUNDS THAT OUTPERFORMED THEIR INDEX



Source: Standard & Poor's Indices Versus Active Funds Scorecard (SPIVA), 2014.
For illustrative purposes only.

Indexes are unmanaged baskets of securities in which investors cannot directly invest; they do not reflect the payment of advisory fees or other expenses associated with specific investments or the management of an actual portfolio.

For a list of all indexes used in comparison, a description of each index used and additional information see data appendix on page 25.

Active (Speculative) vs. Passive (Market Based)

Active managers have had a difficult time beating their benchmarks.

This study by Standard & Poor's looked at the performance of Active mutual fund managers over the last ten years (through 2014) vs. Standard & Poor's Indices. As you can see, over the ten-year cycle the percentage of Active managers that outperformed their respective benchmarks was very low.

This does not mean active investing cannot beat the market—it can. In the last ten years, 23% of US stock managers who try to predict the market beat the index, while 77% did not. The challenge is, active investing beats the market a minority of the time, which makes it hard to deliver the market returns that are the foundation of your plan.

If your plan is built using historical market return assumptions, and this is the outcome for active managers, would you implement your plan with these odds?

Active vs. Passive Investing

$1,057 BILLION

Added to passively-managed funds from 2012-2014

$444 BILLION

Added to actively-managed funds from 2012-2014

Source: Morningstar Direct 2012-2014.
See data appendix on page 25 for more information.

Active vs. Passive Investing

Investors increasingly trust the passive approach.

While active management has been the historical standard on Wall Street, investors are beginning to realize the opportunities and possible advantages of passive investing. Starting from 0% of total assets under management in 1970, passive funds have become more popular in recent years rising from just 3% of the market in 1993, to more than 30% in 2014.

The total amount invested passively today tops 4 trillion dollars. With new asset flows into passively-managed funds doubling the pace of active inflows from 2012 - 2014, it's clear investors have begun to realize the differences between the two.

Once investors have decided on a passive approach to investing, they still have to make one more decision.

Indexing or Asset Class Investing?

Index investing and Asset Class investing are two ways to implement a passive investing approach. While they have similarities—like diversification and tax efficiency—there are important differences.

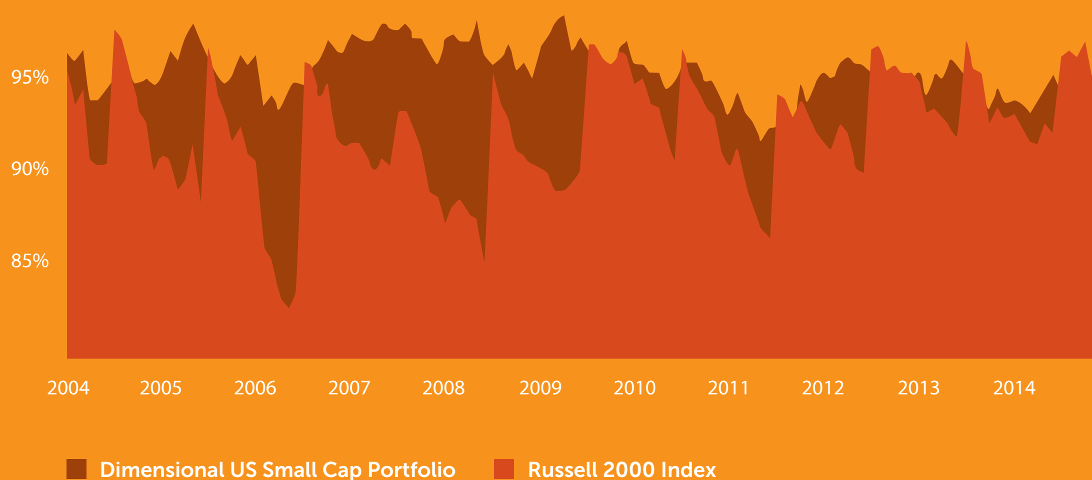
Asset Class Investing is based on asset classes—groups of securities with similar risk characteristics, like small company stocks, large company stocks and international bonds. Asset Class investing attempts to capture the performance of a specific market segment, while Index investing attempts to replicate the performance of an index. Depending on how asset classes are determined, they may have returns that underperform index benchmarks at times.

Key Similarities and Differences between Index and Asset Class Investing

INDEX	ASSET CLASS
Diversification	Diversification
Tax Efficiency	Tax Efficiency
	Precision of exposure to market segment
	Flexible trading to enhance value
	Driven by Academic research on Factors of Return

The Asset Class Difference

ASSETS IN BOTTOM 10% OF MARKET CAP



	Russell 2000 Index	Dimensional US Small Cap Portfolio
May 31 Averages	89.10%	95.96%
June 30 Averages	95.72%	95.67%

Source: Dimensional Fund Advisors. Month-end values from January 2004 to December 2014. Russell data copyright © Russell Investment Group 1995–2015, all rights reserved. Indexes are unmanaged baskets of securities in which investors cannot directly invest; they do not reflect the payment of advisory fees or other expenses associated with specific investments or the management of an actual portfolio.

The Asset Class Difference

Precision

Asset Class investing seeks to maintain a consistent risk exposure to a given market segment. The companies included in that market segment change over time and an asset class is updated to reflect that in real time. Some companies may appear to be a part of a market segment, but they may not have the same risk characteristics so they may be excluded from an asset class.

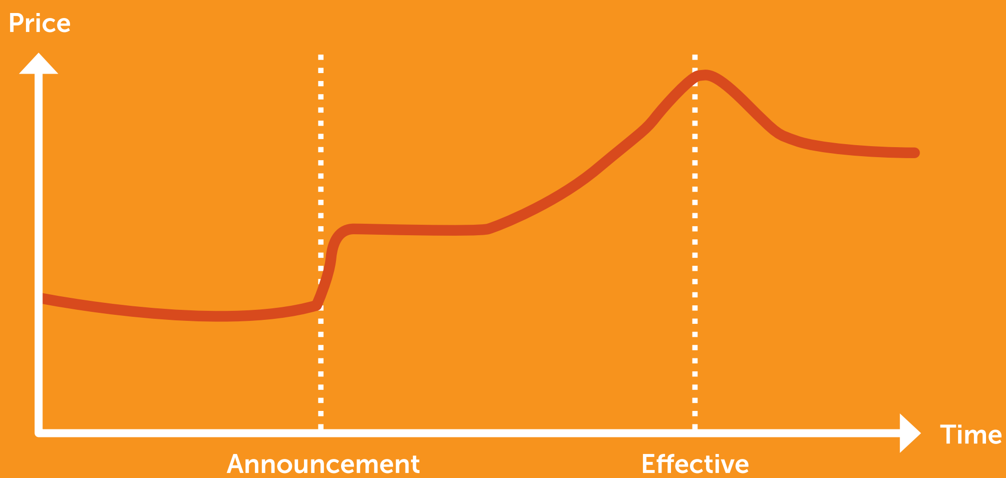
Index Funds, on the other hand, are only intended to replicate a market segment and as such they don't exclude companies based on risk. Additionally, most index funds update their portfolios as infrequently as once a year so they aren't as "real time" with updating the companies that make up the market segment.

Examples of the types of securities asset classes may exclude are:

- Highly regulated utilities
- Investment Funds
- REITs
- Recent IPOs
- Share classes with foreign restrictions
- Extreme financial distress or bankruptcy
- Merger or target of acquisition
- Insufficient liquidity

The Asset Class Difference

RECONSTITUTION EFFECT



	S&P 500 Index	MSCI EAFE Index
One Day Return after Announcement (%)	3.2	3.4
Run-Up to Effective Date (%)	3.8	4.5
Decay after Effective Date (%)	-2.1	-2.6

S&P 500 data source: Anthony Lynch and Richard Mendenhall, "New Evidence on Stock Price Effects Associated with Changes in the S&P 500 Index," Journal of Business 70, no. 3 (July 1997): 351-83. MSCI EAFE Index data source: Rajesh Chakrabarti, Wei Huang, Narayanan Jayaraman, and Jinsoo Lee, "Price and Volume Effects of Changes in MSCI Indices: Nature and Causes," Journal of Banking and Finance 29, no. 5 (May 2005): 1237-64. For illustrative purposes only. Past performance is not a guarantee of future results. Indexes are unmanaged baskets of securities in which investors cannot directly invest; they do not reflect the payment of advisory fees or other expenses associated with specific investments or the management of an actual portfolio.

The Asset Class Difference

Flexibility

Have you ever needed to take a flight at the last minute? Not only do you get to deal with the frustration of limited flight options, but then there is the added expense. The same may be true of investing. Asset class funds have the kind of flexibility you wish you had when booking a last-minute flight. Asset class funds managers can trade when they can get the best price, both when they are buying and selling; index fund managers must buy a stock or bond only on the day it's added to the published index.

In fact, all index managers must do all trades on the same day, which may result in paying a higher price due to the short term demand for the security. (See the chart for how this Reconstitution of the Index can affect pricing.)

Asset Class Investing focuses on the specific factors of return that can help drive performance.

The Asset Class Difference

Factors of Return

Drawing on years of research, including the work of 8 Nobel Laureates, Asset Class investing pursues the known factors of return when constructing their funds. These factors include size, value and profitability. Investors—with the help of their financial advisor—need to decide how much exposure to these dimensions of return they are comfortable with, keeping in mind that the greater the expected long-term return, the greater the potential risk exposure.

STOCK FACTORS OF RETURN	
Market	Equity premium — stocks vs bonds
Company Size	Small cap premium — small vs large companies
Relative Price	Value premium — value vs growth companies
Expected Profitability	Profitability premium — high vs low profitability companies
BOND FACTORS OF RETURN	
Term	Term premium — longer vs shorter maturity bonds
Credit	Credit premium — lower vs higher credit quality bonds

Returns for the S&P 500 and Moderate Risk Asset Class Portfolio

(2000-2014)

100% S&P		MODERATE RISK ASSET CLASS	
Annualized Return	Standard Deviation	Annualized Return	Standard Deviation
4.24	15.26	5.57	10.97

Source: Morningstar Direct 2015.

The S&P 500 Index (Standard & Poor's 500 Index) is an unmanaged market value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the index performance directly proportional to that company's market value. Investors cannot invest directly in an index. Indexes are unmanaged and reflect reinvested dividends and/or distributions, but do not reflect sales charges, commissions, expenses or taxes.

The portfolio allocations are based on a Loring Ward model portfolio, which may not be suitable for all investors. It may not reflect the impact material economic and market factors might have had on decision making if clients' money were actually being managed at that time.

The performance data quoted represents past performance. Past performance does not guarantee future results and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month end performance information please call, toll free, 1-800-366-7266. Investing in mutual funds involve risks, including the loss of principal.

Portfolio returns are the weighted average returns of the respective funds, rebalanced annually. Actual rebalancing may be different. The performance quoted reflects the reinvestment of dividends and capital gains distributions. Portfolio returns are after fund's internal expenses and Loring Ward's max investment management fee of .90%. Management fee may be lower depending on the assets under management. Portfolio performance does not reflect the deduction of any fees charged by an independent investment advisor or other service provider to an individual account. Such fees, if taken into consideration, will reduce the performance quoted above. The model performance information reflects various allocation changes made over time. Therefore the underlying mutual funds used in calculating the portfolio performance may not represent the trailing returns of portfolios and/or the mutual funds currently available.

Diversification neither assures a profit not guarantees against loss in a declining market.

International markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. As a result, they may not be suitable investment options for everyone.

How Do Returns Compare?

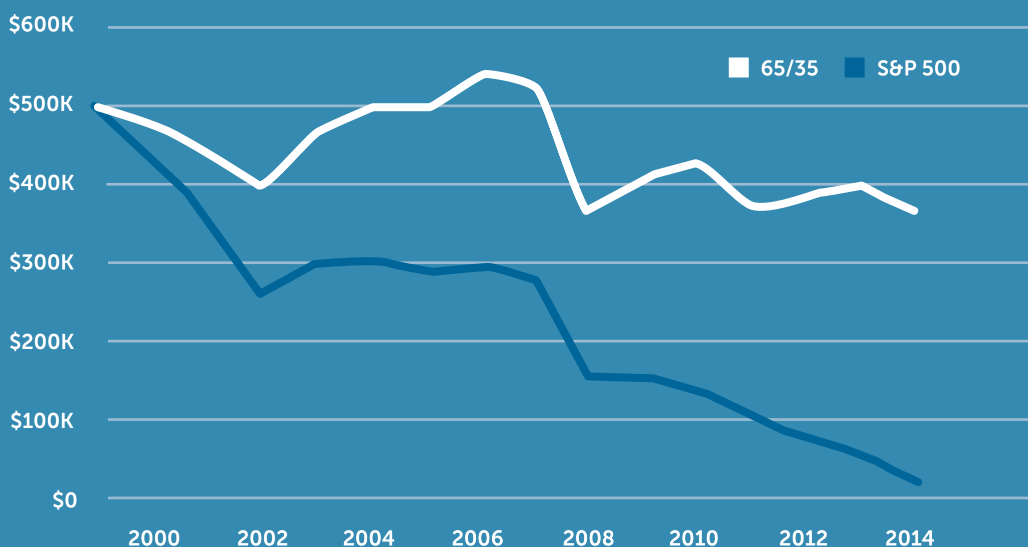
When you are investing for up to a 30-year time horizon with a goal of not outliving your money, the implementation stage will be important. If you were to simply deploy all of your funds to mimic the S&P 500, you would be missing out on the potential benefits of a globally diversified Asset Class Portfolio.

Let's look at an example of a globally-diversified, Asset Class portfolio—in this case a "moderate" portfolio that is 65% stocks and 35% bonds—and compare it to the S&P 500 from 2000 through 2014, one of the worst times to start investing since there were two major market corrections and a recession.

Over this time period, a Moderate Risk Asset Class portfolio had an annualized rate of return of around 5.57%. The S&P 500 returned just 4.24% per year. In addition, there was less volatility (movement in price) in the Asset Class portfolio than in the S&P Index: 10.97% vs. 15.26%.

Asset class investing does not guarantee a gain or protect from a loss. Utilizing asset class investing involves risks, including the loss of principal that cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

How Withdrawals Impact a Portfolio



Source: Morningstar Direct 2015.

Hypothetical value of $500000 invested on January 1, 2000 and kept invested through December 31, 2014. Withdraw is 5% of initial hypothetical value ($25,000 of initial $500,000 starting value) taken out at start of each year, growing by 3% per year.

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Most Investors Need their Portfolios to Provide Income in Retirement

Most retirees need to make regular withdrawals from their portfolios to sustain their lifestyle, particularly as life expectancy increases and the period of retirement is substantially lengthened. This is why your portfolio should be able to sustain regular withdrawals throughout your retirement.

Using the same portfolios over the same time period (2000-2014) let's consider a newly retired 65-year old couple with a $500,000 portfolio. At the start of every year, they withdraw 5% of the initial value ($25,000 of initial $500,000 starting value). This withdrawal is increased 3% each year, to help the couple's income keep pace with inflation.

By 2014, the 65/35 portfolio would be worth $369,341, while the S&P 500 portfolio would only be worth $23,372. (And this is after withdrawing $464,973 in income from the 65/35 portfolio.)
It's pretty clear from this example which couple is at risk of running out of money during their retirement years.

1 and 30

When it comes down to it, we think there are two numbers that matter above all else: 1 and 30. You may only have 1 chance to put together an investment plan that will last you 30 or more years in retirement.

The Ultimate Decision

You need an approach that you can believe in and understand; one based on research, analysis and evidence – not luck or prognostication.

Compared to the typical mutual fund portfolio, Asset Class Investing can offer:

1. Lower overall costs
2. Improved tax efficiency
3. Increased diversification
4. Better risk exposure to an asset class
5. Potentially better long-term performance

Because you can't control the market, you should make sure you have the highest probability of capturing market returns – which gives you the highest probability of being able to achieve your long-term plan and realize your most deeply held goals. We believe the way to do this is by using Asset Class Investing, along with the guidance and experience of a dedicated financial advisor.

Asset Class Investing does not guarantee a gain or protect from a loss and involves risks, including the loss of principal.

Data Appendix

STANDARDIZED PERFORMANCE DATA

Average Annual Total Returns (%)		3 Mo	1 Yr	5 Yr	10 Yr	Since Inception		
	*Prospectus Gross Expense Ratio	Return	Return	Return	Return	Return	Standard Deviation	Inception Date
S&P 500 TR USD		4.93	13.69	15.46	7.68	10.69	21.07	1/30/70
DFA One-Year Fixed-Income I	0.17%	-0.03	0.26	0.66	2.13	5.00	1.39	7/25/83
DFA Five-Year Global Fixed-Income I	0.28%	0.98	2.87	3.39	3.60	5.69	2.98	11/6/90
DFA US Core Equity 1 I	0.19%	4.75	10.52	16.07		8.37	26.57	9/15/05
DFA US Large Cap Value I	0.27%	2.70	10.07	17.02	8.10	10.50	24.44	2/19/93
DFA US Small Cap I	0.37%	8.76	4.44	17.36	8.82	10.90	24.77	3/19/92
DFA Real Estate Securities I	0.19%	14.73	31.11	16.97	8.15	10.68	31.30	1/5/93
DFA International Value I	0.43%	-5.39	-6.99	4.19	4.59	6.51	23.90	2/15/94
DFA International Small Company I	0.54%	-4.23	-6.30	8.29	6.68	6.79	18.95	9/30/96
DFA Emerging Markets Value I	0.57%	-6.33	-4.42	-0.07	8.78	11.10	26.06	4/1/98
Loring Ward Moderate Risk Portfolio	0.31%	1.00	2.35	7.78	5.36	6.62	11.63	10/1/96

Source: Morningstar Direct. Data as of Dec. 31, 2014.

Dimensional Fund Advisors is an investment advisor registered with the Securities and Exchange Commission and is unaffiliated with LWI Financial Inc.

Consider the investment objectives, risks, charges and expenses of the funds listed carefully before investing. The prospectus and if available, summary prospectus, contain this and other information about the funds.

To obtain a DFA Funds prospectus, summary prospectus, additional information about the DFA Funds, or performance data current to the most recent month-end, please call Dimensional Fund Advisors collect at 512-306-7400; or visit www.dimensional.com.

Please read the prospectus and summary prospectus carefully before investing.

Data Appendix

PERFORMANCE DISCLOSURES

*The Advisor has contractually agreed to waive certain fees, including management fees, and in certain instances, assume certain expenses of the Portfolios. The Fee Waiver and/or Expense Assumption Agreement for the Portfolios will remain in effect through February 28, 2015, and may not be terminated by the Advisor prior to that date.

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RISK DISCLOSURES

Diversification and implementing an asset class or market-based investing strategy does not guarantee a profit or protect from a loss.

All investing involves risk, including loss of principal.

Stock investing involves risks, including increased volatility (up and down movement in the value of your assets) and loss of principal.

Securities of small companies are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price.

International and emerging market investing involves special risks such as currency fluctuation and political instability, and may not be suitable for all investors.

Bonds (fixed income) are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rises, issuer's creditworthiness declines, and are subject to availability and changes in price.

REIT investments are subject to changes in economic conditions and real estate values, andcredit and interest rate risks.

Data Appendix

ADDITIONAL INFORMATION FOR DATA AND CHARTS ON PREVIOUS PAGES

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Source: Social Security Administration period life table

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Percentage of Active Funds that Outperformed their Index 2009 – 2014

Source: Standard & Poor's Indices Versus Active Funds Scorecard (SPIVA), mid-year 2014.

Index used for comparison: US Equities — The S&P 1500 Index: The S&P Composite 1500® combines three leading indices, the S&P 500®, the S&P MidCap 400®, and the S&P SmallCap 600® to cover approximately 90% of the U.S. market capitalization. It is designed for investors seeking to replicate the performance of the U.S. equity market or benchmark against a representative universe of tradable stocks. International — The S&P 700 Index: The S&P 700 measures the non-U.S. component of the global equity market through an index that is designed to be highly liquid and efficient to replicate. The index covers all regions included in the S&P Global 1200 except for the U.S., which is represented by the S&P 500®. Emerging Markets — The S&P/IFCI Composite Index: The S&P/IFCI is a liquid and investable subset of the S&P Emerging BMI, with the addition of South Korea. While the S&P Global BMI and S&P Frontier BMI are designed as comprehensive benchmark indices, the S&P/IFCI indices are designed to be sufficiently investable to support index tracking portfolios. The S&P/IFCI has a long and established history going back to 1988. US Fixed — Government Short, Barclays 1-3 Year Treasury Bond Index: The index measures the performance of U.S. Treasury securities that have a remaining maturity of at least one year and less than three years. Global Fixed — Global Income Funds, Barclays Global Aggregate Index: The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four different local currency markets. This multi-currency benchmark includes fixed-rate treasury, government-related, corporate and securitized bonds from both developed and emerging markets issuers.

Outperformance is based upon equal weight fund counts.

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Active/passive as determined by Morningstar database.

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Month-end values from January 2004 to December 2013. Russell data copyright © Russell Investment Group 1995-2014, all rights reserved.

The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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The MSCI EAFE Index (Morgan Stanley Capital International Europe, Australasia, Far East Index) is an unmanaged index comprised of over 1,000 companies representing the stock markets of Europe, Australia, New Zealand and the Far East.

The S&P 500 Index (Standard & Poor's) 500 Index is an unmanaged market value-weighted index of 500 stocks that are traded on the NYSE, AMEX, and NASDAQ.

Page 17

Allocation is 100% S&P 500 TR, and 65/35 Mix represented by: 2% (Cash), 16% (DFA One Year Fixed Income DFIHX), 17% (DFA 5 Year Global DFGBX), 15% (DFA US Core Equity 1 DFEOX), 12% (DFA US Large Cap Value DFLVX), 8% (DFA US Small Cap DFSTX), 4% (DFA REIT DFREX), 14% (DFA Intl Value DFIVX), 7% (DFA Intl Small Cap DFISX), 5% (DFA Emerging Markets Value DFEVX).

Page 19

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