

# SOLVING THE INVESTMENT PROBLEM

The Fundamentals of Asset Class Investing



FOCUS ON INVESTING

LORING  WARD  
A BETTER WEALTH EXPERIENCE

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

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## 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. We believe that how you make two main decisions can help lay a strong foundation for your future.

# Decision One: Active or Passive?

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## DECISION ONE

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### Two Fundamental Ways to Invest: Active and Passive

The difference between active and passive investing comes down to one thing. Results.

#### 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).

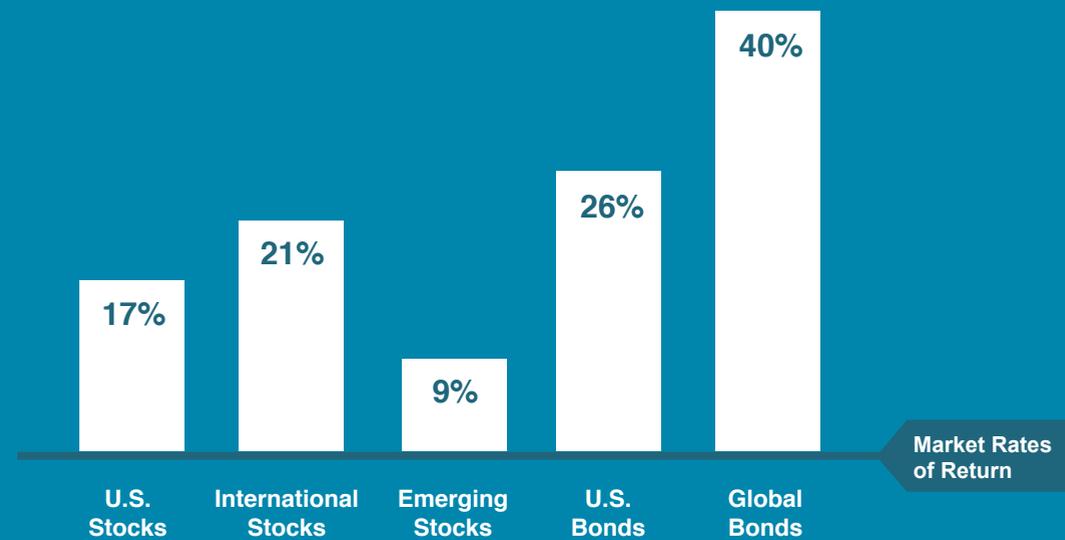
#### Passive Management (Market Based)

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

**Few Active Managers Outperform**

*Percentage of Actively-Managed Funds That Beat Their Index 2006-2015*



Source: Standard & Poor's Indices Versus Active Funds Scorecard (SPIVA), 2015. 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 vs. Passive Investing

### Active Managers Have Had a Difficult Time Beating Their Benchmarks

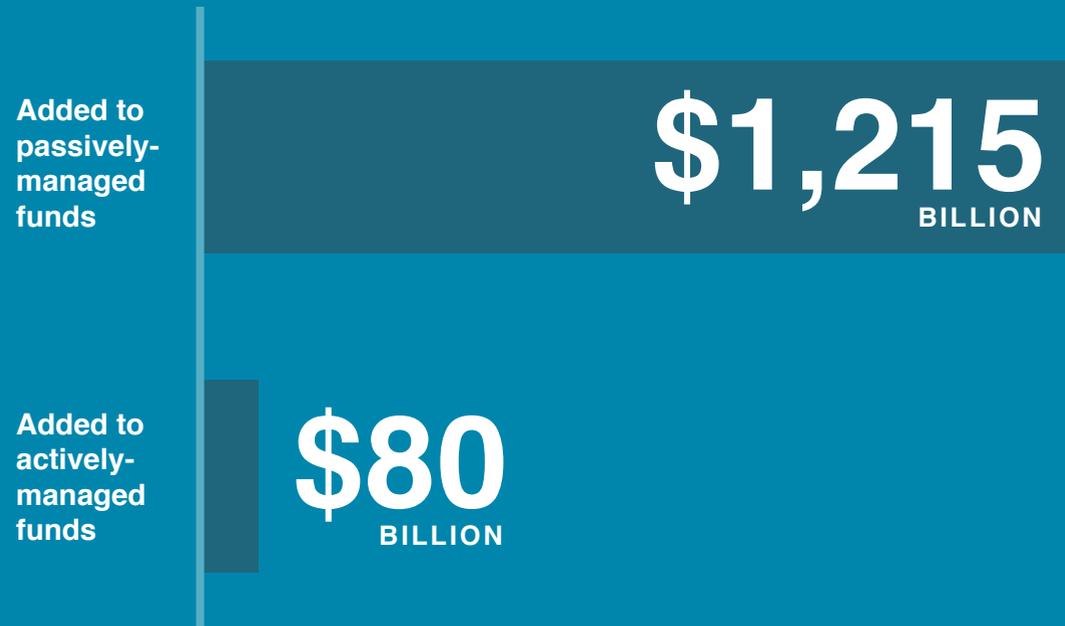
This study by Standard & Poor's looked at the performance of active mutual fund managers over the last ten years (through 2015) vs. Standard & Poor's Indices. As you can see, over the 10-year cycle the percentage of active managers who beat their respective benchmarks was very low.

This does not mean active investing cannot beat the market — it can. In the last 10 years, 17% of U.S. stock managers who tried to predict the market beat the index, while 83% 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?

**More Investors Are Choosing the Passive Approach**

*Passively-Managed Funds vs. Actively-Managed Funds 2013-2015*



Source: Morningstar Direct 2013-2015. See data appendix on page 24 for more information.

**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 32% in 2015.

The total amount invested passively today tops 4 trillion dollars. With new asset flows into passively-managed funds more than 10 times the pace of active inflows from 2013 - 2015, it's clear investors have begun to realize the differences between the two.

## The Differences Between Asset Class Investing and Indexing

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

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.

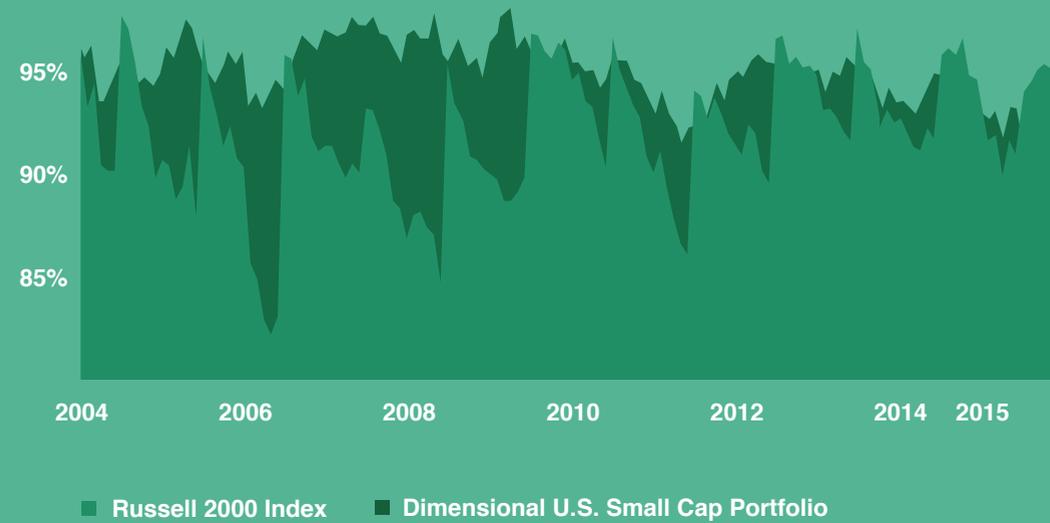
Asset Class Investing is based on asset classes — groups of securities with similar risk characteristics, like small company stocks, large company stocks and international bonds. Asset Class Investing attempts to capture the performance of a specific market segment, while index investing attempts to 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	✓	✓
Tax Efficiency	✓	✓
Precision of Exposure to Market Segment		✓
Flexible Trading to Enhance Value		✓
Driven by Academic Research on Factors of Return		✓

# Decision Two: Indexing or Asset Class Investing?

**Asset Classes Mean More Consistency**  
*Assets in Bottom 10% of Market Cap*



	Russell 2000 Index	Dimensional U.S. Small Cap Portfolio
<b>May 31 Averages</b>	89.29%	95.78%
<b>June 30 Averages</b>	96.29%	95.41%

Source: Dimensional Fund Advisors. As of December 31, 2015. Monthly data, 2004-2015. Russell data copyright © Russell Investment Group 1995–2016, 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

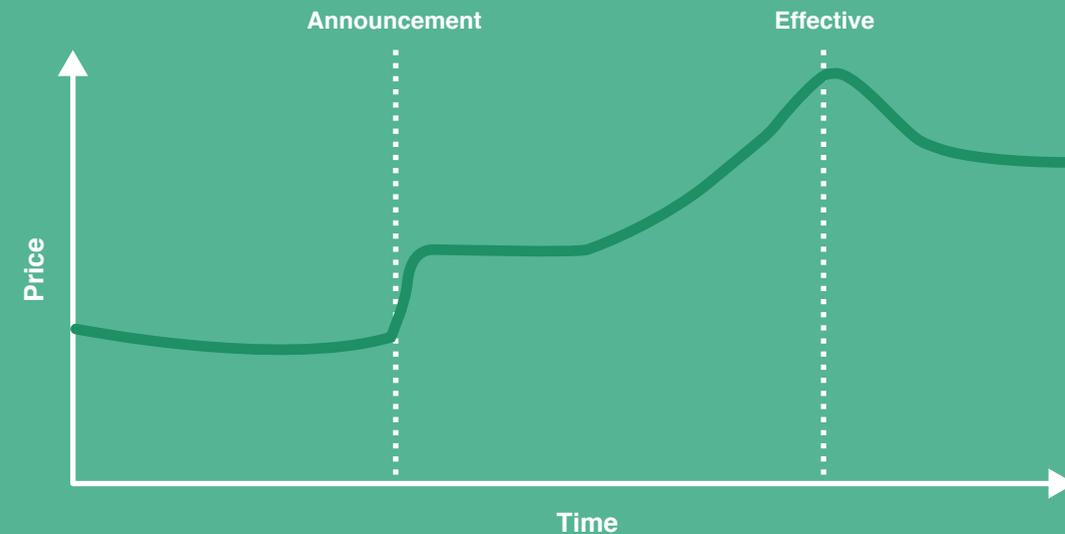
Asset Class Investing seeks to maintain a consistent risk exposure to a given market segment. The companies included in that market segment change over time and an asset class is updated to reflect that in real time. Some companies may appear to be a part of a market segment, but they may not have the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

**Indexing Trading Restrictions Affect Pricing**  
*Reconstitution Effect*



	S&P 500 Index	MSCI EAFE Index
<b>One Day Return after Announcement (%)</b>	3.2	3.4
<b>Run-Up to Effective Date (%)</b>	3.8	4.5
<b>Decay after Effective Date (%)</b>	-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.

**Flexibility**

Have you ever needed to take a flight at the last minute? Not only do you experience 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.)

**Factors of Return**

Drawing on years of investing research, including the work of 11 Nobel Laureates, Asset Class investing pursues the known factors of return when constructing funds. These factors include size, value and profitability. Investors — with the help of their financial advisors — 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**

<b>Market</b>	Equity premium — stocks vs. bonds
<b>Company Size</b>	Small cap premium — small vs. large companies
<b>Relative Price</b>	Value premium — value vs. growth companies
<b>Expected Profitability</b>	Profitability premium — high vs. low profitability companies

## A Portfolio for the Long Term

When you are investing for up to a 30-year time horizon with a goal of not outliving your money, how you implement can be very important. Whatever happens in the economy and in markets over that time — recessions, recoveries, bear or bull markets — your portfolio has to be able to provide you with income.

So how do you put the odds in your favor?

If you simply invested all your money in a “market” index fund that tracks the S&P 500, you could be missing out on the potential long-term benefits of a globally-diversified, Asset Class Portfolio.

Let’s see what the potential results could be for a newly-retired couple...

# Results

How can your portfolio increase your chances of retirement success?

## The Results Speak for Themselves

Returns for the S&P 500 and Moderate Risk Asset Class Portfolio 2000-2015

4.06	15.13	5.03	10.81
Annualized Return	Standard Deviation	Annualized Return	Standard Deviation
100% S&P		MODERATE RISK PORTFOLIO	

Source: Morningstar Direct 2016. 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 re-balancing 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 nor 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?

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 2015, 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 5.03%. The S&P 500 returned just 4.06% per year. In addition, there was less volatility (ups and downs in price) in the Asset Class Portfolio than in the S&P Index: 10.81% vs. 15.13%.

*Asset Class Investing and diversification do 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

### Impact of a 5% Withdrawal



Source: Morningstar Direct 2016. Hypothetical value of \$500,000 invested on January 1, 2000 and kept invested through December 31, 2015. Withdrawal 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.

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.

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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. This is why your portfolio should be able to sustain regular withdrawals throughout your retirement.

Using the same portfolios over the same time period (2000-2015) 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 2015, the 65/35 portfolio would be worth \$321,339 (and this is after withdrawing \$503,922 in income).

Meanwhile, the S&P 500 portfolio ran out of money.

# The Ultimate Decision...

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## What Asset Class Investing Can Offer

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.

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:

- Lower overall costs
- Improved tax efficiency
- Increased diversification
- Better risk exposure to an asset class
- Potentially better long-term performance

Because you can't control the market, you need a plan that 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		1.35	1.78	11.58	7.01	10.45	21.03	1/30/70
DFA One-Year Fixed-Income I	0.17%	0.45	0.51	0.54	1.88	4.83	1.38	7/25/83
DFA Five-Year Global Fixed-Income I	0.27%	2.32	2.39	3.04	3.81	5.56	2.98	11/6/90
DFA US Core Equity 1 I	0.19%	1.52	-2.03	10.38	6.86	7.36	25.83	9/15/05
DFA US Large Cap Value I	**0.37%	0.13	-3.16	10.05	6.04	9.75	24.27	2/19/93
DFA US Small Cap I	0.37%	1.84	-5.29	9.06	6.62	10.23	24.58	3/19/92
DFA Real Estate Securities I	**0.19%	6.23	4.69	11.85	6.27	10.52	30.86	1/5/93
DFA International Value I	**0.63%	-4.06	-13.68	-0.95	0.84	5.62	23.81	2/15/94
DFA International Small Company I	**0.54%	0.38	2.34	4.17	4.12	6.68	18.82	9/30/96
DFA Emerging Markets Value I	**0.66%	8.90	-11.37	-6.44	3.27	9.54	25.82	4/1/98
Loring Ward Moderate Risk Portfolio	0.34%	0.78	-3.63	3.88	3.86	6.07	11.61	10/1/96

Source: Morningstar Direct. Data as of March 31, 2016.

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.dimensionalfund.com](http://www.dimensionalfund.com).**

**Please read the prospectus and summary prospectus carefully before investing.**

## Data Appendix

### Performance Disclosures

\* The fund's prospectus contains more information on fees and expenses.

\*\* The Advisor has agreed to waive certain fees and, in certain circumstances, assume certain expenses of the Portfolio. This portion of the contractual fee waiver and/or expense assumption agreement will remain in effect through 2/28/2017.

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.

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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 rates rise, 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, and credit and interest rate risks.

# Data Appendix

## Additional Information for Data and Charts on Previous Pages

### Page 1

Source: Social Security Administration period life table

### Page 4

Percentage of Active Funds that Outperformed their Index 2005 – 2015

Source: Standard & Poor's Indices Versus Active Funds Scorecard (SPIVA), 2015.

Index used for comparison: U.S. 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. U.S. 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.

### Page 6

Active/passive as determined by Morningstar database.

### Page 10

As of December 31, 2015. Monthly data, 2004-2015. Russell data copyright © Russell Investment Group 1995-2016, 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.

### Page 12

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 16

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).

### Pages 18-19

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