

MARKET REVIEW

While most equity markets enjoyed a strong fourth quarter, we have still dubbed 2011 as the year of the roller coaster. You start and end the ride at the same place, but the time in between is volatile, exciting and frightening. The S&P 500 started 2011 at 1,257 and ended at the exact same price. At first glance it seems like a pretty boring year, but nothing could be further from the truth. On a daily basis, the S&P 500 moved over 3,100 points in 2011 only to end the year flat. From the earthquake and nuclear disaster in Japan, the political maneuvering around the debt ceiling, and the debt crisis in Europe, the market had quite a few headlines causing extreme volatility at times.

Bonds outperformed equities for the first time since 2008, with traditional safe havens like treasury bonds performing the best (9.81% return). In the equity asset class, stocks based in the United States outperformed their global counterparts as the perceived risk of a European and Emerging Market slowdown caused share prices to tumble.

MARKET PREVIEW

As we move into the New Year, we remain cautiously optimistic on the equity and real asset markets, and just plain cautious on the fixed income markets. One reason for this optimism for equities and real assets is the compression in values. Although shares prices in the US equity market were unchanged in 2011, earnings grew 11%. As a result, the often cited "price-to-earnings ratio" (P/E Ratio) dropped, meaning stocks became cheaper. This contraction in the P/E ratio has the potential to be a positive catalyst for equity prices in the future, since when the ratio expands, the opposite phenomenon occurs (equity prices grow faster than earnings).

Bond values continue to hover around their all-time highs. While another crisis could cause these investments to move higher, there is very little long-term return available at these prices. Because interest rates are hovering around 0%, we believe the next major move will be upward. Since bonds prices move opposite to interest rates, we continue to assert that there is a high degree of risk in this asset class.

INDEX PERFORMANCE AS OF DECEMBER 31, 2011

	QTD	1 Year	3 Year	5 year
Equities				
Domestic Equities	12.12%	0.86%	14.71%	-0.12%
<small>Russell 3000 Index</small>				
Foreign Equities	3.51%	-12.21%	8.53%	-4.09%
<small>MSCI World ex USA Index</small>				
Emerging Market Equities	4.22%	-19.86%	14.01%	8.80%
<small>MSCI Emerging Market Index</small>				
Hedged Equities	-0.49%	-8.87%	2.82%	-2.76%
<small>HFRX Global Hedge Fund Index</small>				
Fixed Income				
Domestic Bonds	1.12%	7.84%	6.77%	6.50%
<small>Barclays Aggregate Bond Index</small>				
Foreign Bonds	0.80%	4.47%	3.39%	4.62%
<small>JP Morgan GBI Global ex-US Index</small>				
Emerging Market Bonds	4.89%	7.96%	15.99%	n/a
<small>JP Morgan Global Core EMBI</small>				
High Yield Bonds	7.98%	5.94%	19.88%	6.07%
<small>iBoxx \$ Liquid High Yield Index</small>				
Real Assets				
Real Estate	13.78%	6.05%	20.75%	-2.89%
<small>DJ US REIT Index</small>				
Commodities	8.96%	-1.18%	6.93%	-2.79%
<small>S&P GSCI® Commodity Index</small>				
Infrastructure	16.3%	13.9%	11.79%	2.69%
<small>Alerian MLP Index</small>				

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MANAGER RETURNS (AS OF DECEMBER 31, 2011)

	QTD	YTD
Equities		
DFA US Core Equity II	13.87%	-2.09%
DFA International Core Equity	3.15%	-15.11%
DFA Emerging Market Core Equity	4.49%	-20.65%
The Merger Fund	2.90%	1.66%
The Gateway Fund	5.56%	3.20%
Fixed Income		
Vanguard Short-Term Investment Grade Bond	0.49%	2.02%
PIMCO Foreign Bond Fund	2.39%	6.77%
Fidelity New Markets Income Fund	5.45%	7.95%
Vanguard Corporate High Yield	6.08%	7.24%
Real Assets		
Vanguard REIT Index ETF	15.26%	8.60%
TIAA Real Estate	2.56%	12.99%
PIMCO Commodity Real Return Fund	2.24%	-7.56%
Kayne Anderson MLP Fund	11.30%	3.60%
iShares S&P Global Infrastructure ETF	5.60%	-0.96%

TACTICAL WEIGHTINGS

Asset Class	Tactical Weighting
Domestic Equities	Underweight
Foreign Equities	Neutral
Emerging Market Equities	Overweight
Hedged Equities	Overweight
Domestic Bonds	Overweight
Foreign Bonds	Underweight
Emerging Market Bonds	Underweight
High Yield Bonds	Overweight
Real Estate	Neutral
Commodities	Neutral
Infrastructure	Neutral

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