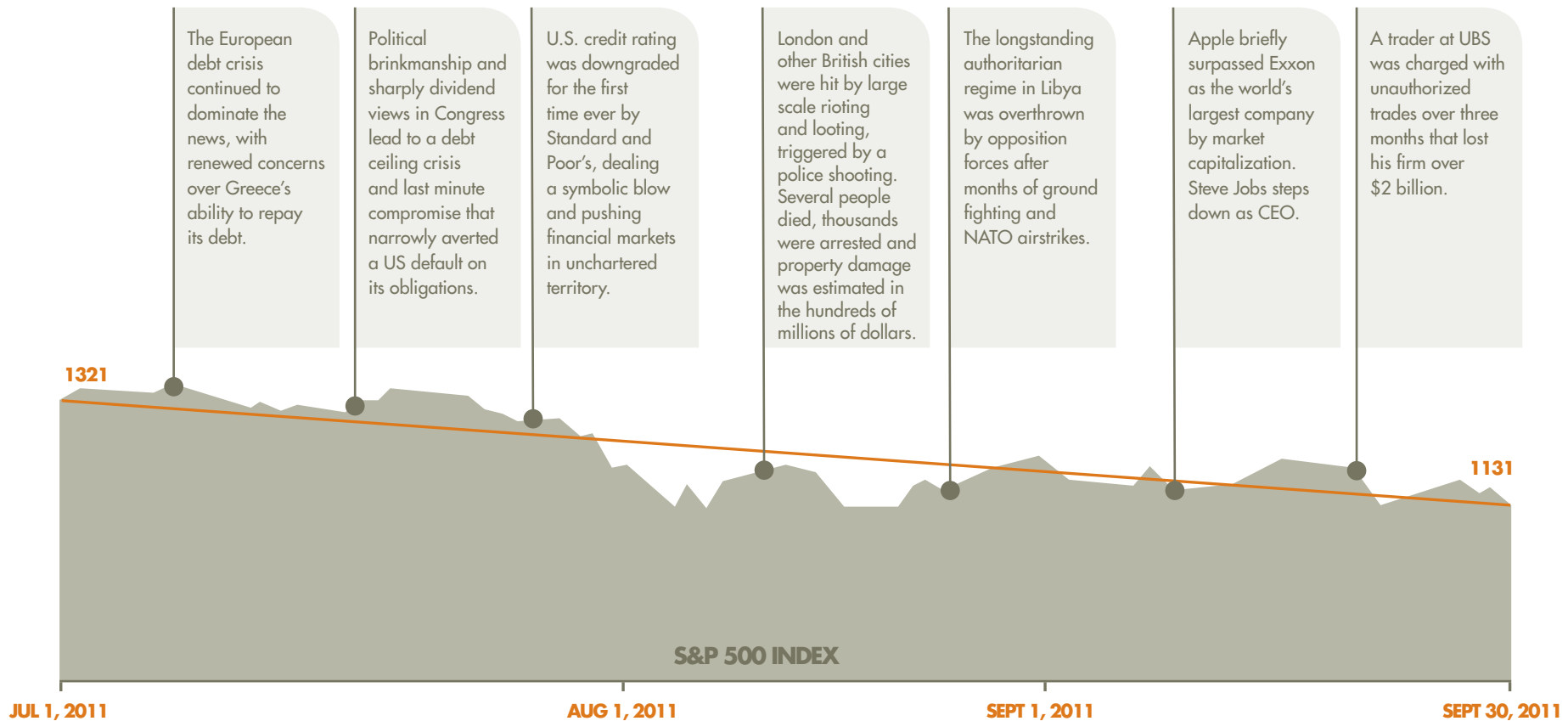


Quarterly Markets Review

THIRD QUARTER 2011

Timeline of Events: A Quarter in Review

THIRD QUARTER 2011



The graph illustrates the S&P 500 index price changes over the quarter. The return of the price-only index is generally lower than the total return of the index that also includes the dividend returns. Source: The S&P data are provided by Standard & Poor's Index Services Group. The events highlighted are not intended to explain market movements.

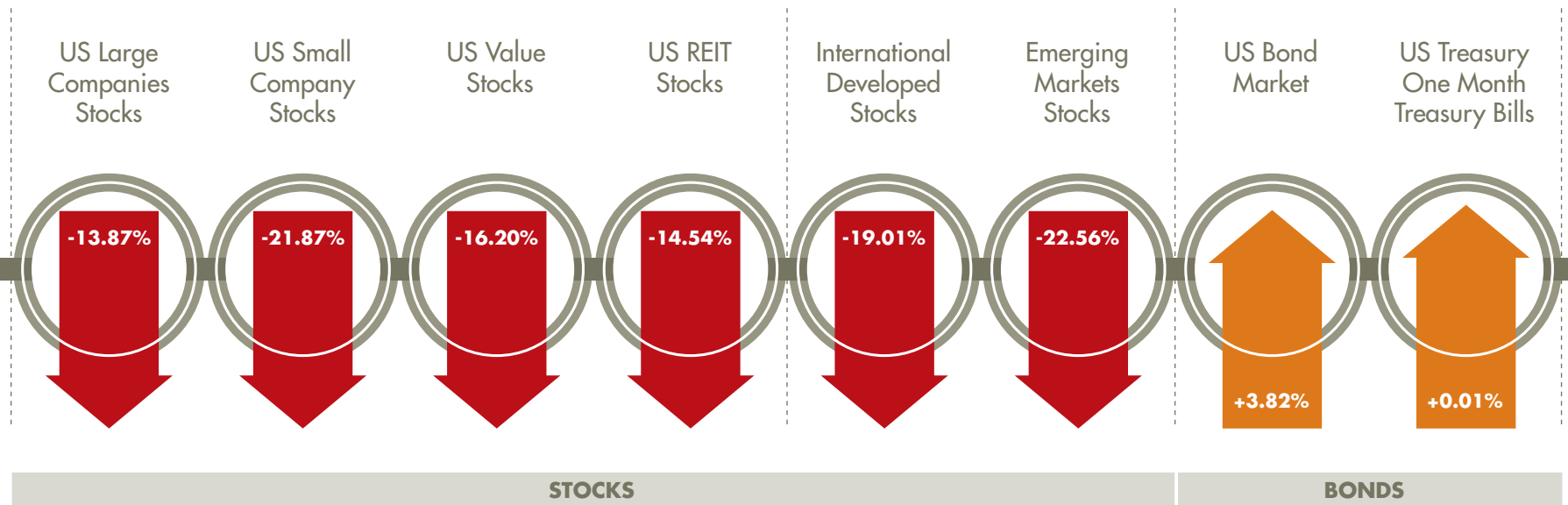
Markets Update: A Quarter in Review

THIRD QUARTER 2011

- Equity markets around the world had their worst quarter since the end of 2008, as investors reacted negatively to the sovereign debt problems in Europe, the budget stalemate in the US, and poor economic data in most developed countries and in some large emerging countries such as China. The broad US market lost over 15%.
- In US dollar terms, the overall performance in other developed markets was even worse, but that performance differential with the US was entirely due to currency fluctuations. In local currency, developed markets as a whole performed on par with the US. As in most of the past few quarters, there was much dispersion in performance at the individual country level. Greece, which remains at the center of Europe's sovereign-debt woes, was by far the worst performer. At the other end of the spectrum, Japan, whose dollar-denominated returns greatly benefited from the strength of the yen, and New Zealand were the top performers. The US dollar gained ground against most major currencies except the yen, which hurt the dollar-denominated returns of developed market equities.
- In US dollar terms, emerging markets had sharply negative returns and trailed developed markets. In local currency, however, emerging markets as a whole had similar performance to developed markets. As in developed markets, there was much dispersion in the performance of different emerging markets. Peru and some of the smaller emerging markets in Asia did relatively well. On the other hand, Russia and other European markets were among the worst performers. The US dollar also gained ground against the main emerging market currencies, which contributed negatively to the dollar-denominated returns of emerging market equities.
- Value stocks had mixed performance relative to growth stocks. In the US, small value outperformed small growth, but large value greatly underperformed large growth. In other developed markets, value stocks trailed growth stocks across all market capitalization segments. In emerging markets, value outperformed growth across all market capitalization segments. Along the market capitalization dimension, small caps greatly underperformed large caps in the US and in emerging markets, but not in developed markets outside the US.
- Most fixed income securities had excellent returns, especially short-term US government securities, which greatly benefited from the flight to quality, and inflation-protected securities.
- Real estate securities had poor returns but good performance relative to other equity asset classes.

Markets Update: A Quarter in Review

THIRD QUARTER 2011



Market segment (index representation) as follows: US Large Company (S&P 500 Index); US Small Company (Russell 2000 Index), US Value (Russell 1000 Value Index), US Real Estate Market (Dow Jones US Select REIT Index), International Developed (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [gross div.]), US Bond Market (Barclays Capital US Aggregate Bond Index), and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Beyond the Quarter: Survey of Long Term Performance

AS OF SEPTEMBER 30, 2011

INDEX	5 Years Ending 9/30/2011	10 Years Ending 9/30/2011	20 Years Ending 9/30/2011	Since Inception	(Inception Date)
US Large Company Stocks					
S&P 500 Index	-1.18	2.82	7.64	9.66	(1/1926)
US Small Cap Stocks					
Russell 2000 Index	-1.02	6.12	8.05	10.80	(1/1979)
US Value Stocks					
Russell 1000 Value Index	-3.53	3.35	8.48	11.48	(01/1979)
US Real Estate Investment Trust Stocks					
Dow Jones US Select REIT Index	-3.17	9.07	10.19	12.06	(1/1978)
International Stocks					
MSCI World ex USA Index	-2.90	5.50	4.78	8.92	(1/1970)
MSCI Emerging Markets Index (gross div.)	5.17	16.41	8.96	12.43	(1/1988)
Bonds					
SBBI Long-Term Corporate Bonds	8.59	8.21	8.27	6.02	(1/1926)
SBBI One-Month US Treasury Bills	1.55	1.87	3.24	3.59	(1/1926)

The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Living with Volatility

THIRD QUARTER 2011

The current renewed volatility in financial markets is reviving unwelcome feelings among many investors—feelings of anxiety, fear, and a sense of powerlessness. These are completely natural responses. Acting on those emotions, though, can end up doing us more harm than good.

At base, the increase in market volatility is an expression of uncertainty. The sovereign debt strains in the US and Europe, together with renewed worries over financial institutions and fears of another recession, are leading market participants to apply a higher discount to risky assets. It is all reminiscent of the events of 2008, when the collapse of Lehman Brothers and the sub-prime mortgage crisis triggered a global market correction. This time, however, the focus of concern has turned from private-sector to public-sector balance sheets.

As for what happens next, no one knows for sure. That is the nature of risk. But there are a few points individual investors can keep in mind to make living with this volatility more bearable.

- Markets are unpredictable and do not always react the way the experts predict they will. The recent downgrade by Standard & Poor's of the US government's credit rating, following protracted and painful negotiations on extending its debt ceiling, actually led to a strengthening in Treasury bonds.
- Quitting the equity market at a time like this is like running away from a sale. While prices have been discounted to reflect higher risk, that's another way of saying expected returns are higher. And while the media headlines proclaim that "investors are dumping stocks," remember someone is buying them. Those people are often the long-term investors.
- Market recoveries can come just as quickly and just as violently as the prior correction. For instance, in March 2009—when market sentiment was

last this bad—the S&P 500 turned and put in seven consecutive months of gains totaling almost 80%. This is not to predict that a similarly vertically shaped recovery is in the cards this time, but it is a reminder of the dangers for long-term investors of turning paper losses into real ones and paying for the risk without waiting around for the recovery.

- Never forget the power of diversification. While equity markets have had a rocky time in 2011, fixed income markets have flourished—making the overall losses to balanced fund investors a little more bearable. Diversification spreads risk and can lessen the bumps in the road.
- Markets and economies are different things. The world economy is forever changing, and new forces are replacing old ones. For example, the IMF noted in its April 2011 World Economic Outlook that while advanced economies seek to repair public and financial balance sheets, emerging market economies are thriving. A globally diversified portfolio takes account of these shifts.
- Nothing lasts forever. Just as smart investors temper their enthusiasm in booms, they keep a reserve of optimism during busts. And just as loading up on risk when prices are high can leave you exposed to a correction, dumping risk altogether when prices are low means you can miss the turn when it comes. As always in life, moderation is a good policy.

The market volatility is worrisome, no doubt. The feelings being generated are completely understandable. But through discipline, diversification, and understanding how markets work, the ride can be made bearable. At some point, value will re-emerge, risk appetites will re-awaken, and for those who acknowledged their emotions without acting on them, relief will replace anxiety.

Adapted from "Living with Volatility" by Jim Parker, Outside the Flags column on Dimensional's website, August 9, 2011. This information is for educational purposes only and should not be considered investment advice or an offer of any security for sale.