

For the first time in quite a while, US stocks under performed that of the broader world markets, turning in an average return of 1.80% for the quarter. Small company stock led large companies. Growth beat value.

International developed markets were up an average of 3.83%, with small leading large, and growth beating value.

Emerging markets were also a bright spot, up on average 2.24% in Q1. Like the other two stock categories, small led large company stock, and growth beat value.

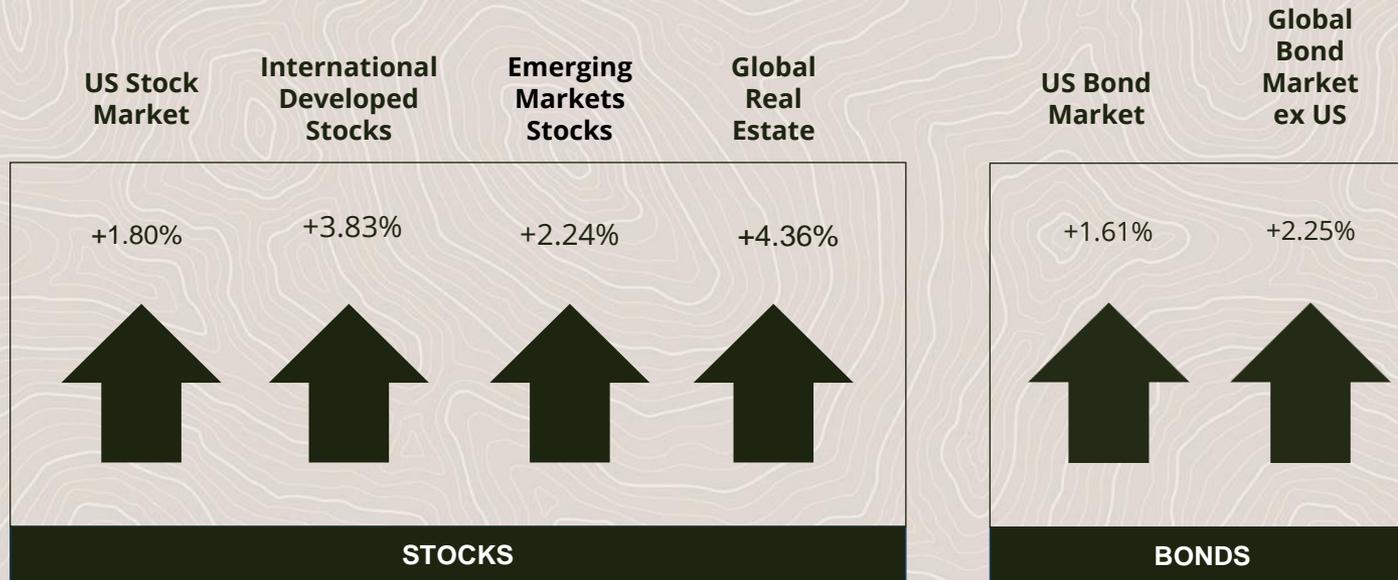
In the bond market, the US market was up 1.61% overall, and foreign bond market was up 2.25%.

Q1

Quarterly Market Review
First Quarter 2015

MARKET SUMMARY

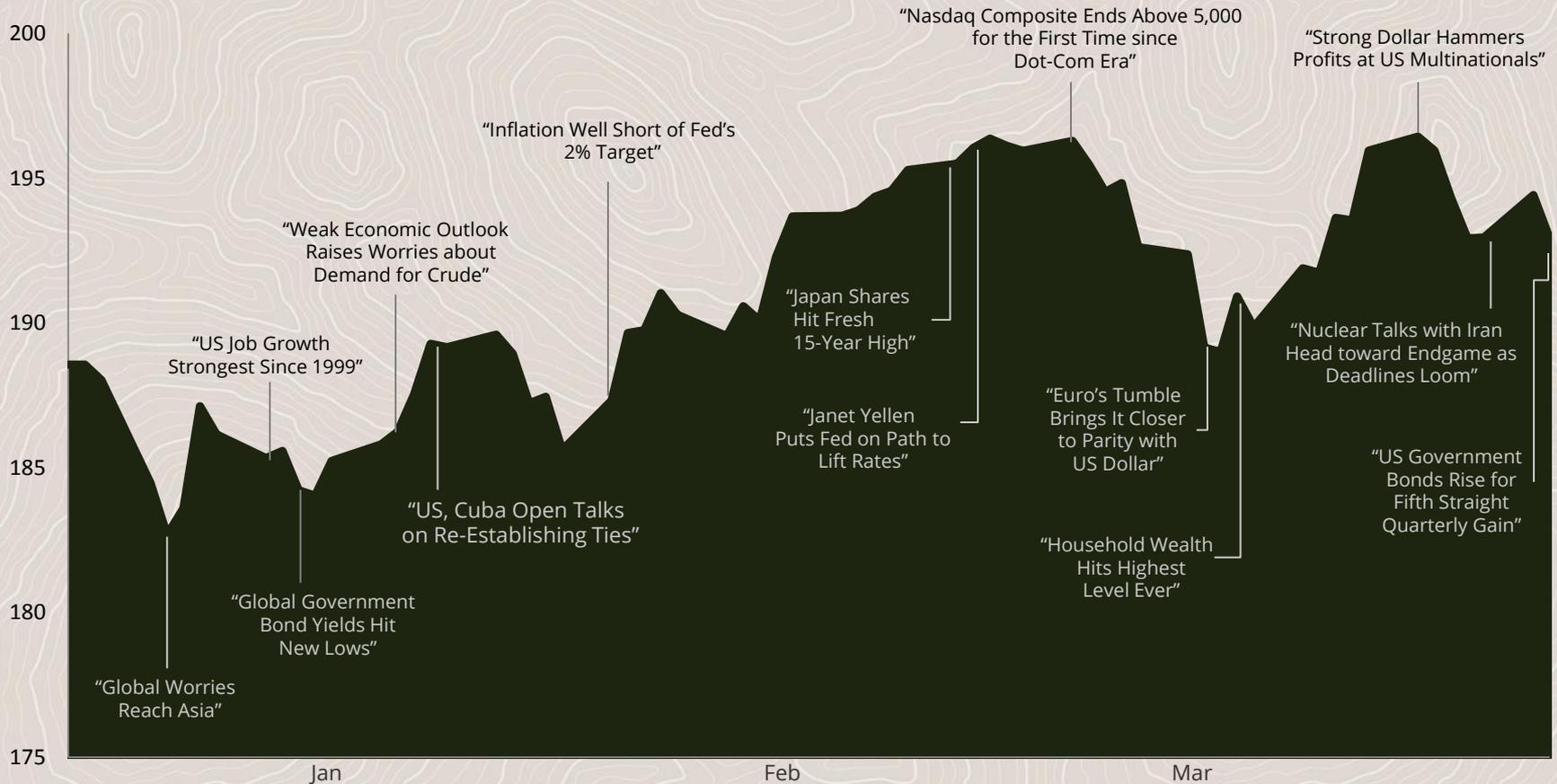
First Quarter 2015 Index Returns



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBl ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995-2015, all rights reserved. MSCI data © MSCI 2015, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2014 by Citigroup.

WORLD STOCK MARKET PERFORMANCE

MSCI All Country World Index with selected headlines from Q1 2015



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index, MSCI data © MSCI 2015, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

MASTERCHEF OF INVESTING

First Quarter 2015

In the popular TV program *MasterChef*, contestants face a series of cooking challenges. From low quality ingredients to inadequate preparation and poor implementation, so many things can, and do, go wrong. It's a bit like investing.

In the world of investment, there customarily are two broad approaches. The first is a traditionally active one: Managers attempt to find mispriced securities or seek to time their entry and exit points from various parts of the market.

This first approach is akin to the *MasterChef* challenge, which requires inventing a new and distinctive dish within a set time frame. The apparent advantage for the chef is flexibility of concept.

Likewise, in the investment world, the traditionally active manager locks in on individual ideas. That results in little flexibility and creates time constraints. The manager tries to trade on information not believed to be reflected in prices. If it doesn't work out, there may not be a Plan B.

The second approach to investing is when the investment manager seeks to track as closely as

possible to a commercial index. The goal here is not to stand out, so the manager will be most conscious of "tracking error" (deviating from the benchmark).

This approach is more akin to the *MasterChef* challenge in which contestants must cook a standard, popular dish with set ingredients. The focus is not creativity but following an established process as dictated by an outside party.

But the drawback of this latter approach is the absence of flexibility. The contestants can't substitute one ingredient—or stock—for another. The recipe must be followed. What's more, it must be achieved in a designated timeframe.

But what if we had a system that combined the creativity of the first approach with the simplicity of the second?

In this third approach, our contestants do not face unnecessary constraints either in terms of time or ingredients. Instead, they assemble a broad selection of dishes from multiple ingredients appropriate for the season and at times of their choosing.

The difference under this third way is that the chefs can focus on what they can control and eliminate elements that might restrict their choices. After all, their ultimate goal is to efficiently and consistently provide meals that suit a range of palates.

In the world of investing, we believe this third way is the optimal approach. Picking stocks and timing the market, like making brilliant-off-the-cuff meals in any conditions and in an efficient and consistent manner, is a tough task—even for the masters. Cooking meals off a provided menu, like the index managers, can be inflexible and costly.

The third way of investing is akin to the Dimensional approach.

We can research the dimensions of expected returns, design highly diverse portfolios that pursue market premiums, and build flexibility into the system so that we efficiently and consistently serve up investment solutions for a wide range of needs.

Call it the MasterChef of investing.

The author would like to thank Marlena Lee for her inspiration for this article.

Adapted from "MasterChef of Investing" by Jim Parker, Outside the Flags column on Dimensional's website, March 2015. Dimensional Fund Advisors LP ("Dimensional") is an investment advisor registered with the Securities and Exchange Commission. Diversification does not eliminate the risk of market loss. There is no guarantee investment strategies will be successful. The S&P 500 Index is not available for direct investment and does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. This content is provided for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.