

Year End Report and Commentary

January 2011

Enclosed is your year-end portfolio report. It includes a gain and loss report and an income and expense report for 2010. Please be aware that many mutual fund firms continue to issue capital gains/loss revisions through January and even into February. This isn't such an issue this year because you probably need to wait to file your tax return anyway.

If you itemize your tax deductions you will need to hold off filing your tax return until after mid-February. The Tax Relief Act enacted on December 17th forced the IRS to re-work schedule A and education deductions on Form 8917. You may want to touch base with your accountant about this tax filing delay.

The Outlook for 2011?

Another year on our Gregorian calendar, which has only existed since 1582, is past. As always, the New Year brings change, hope, joy, sadness, optimism, and uncertainty.

2010 witnessed a revival in the world's stock markets and we believe we achieved or exceeded the goals, as determined in your Investment Policy Statement, for most of our clients. We do not know what the year 2011 holds, and we do not make forecasts or put much faith in those who do.

According to the Wall Street Journal, "Every year hordes of highly paid experts attempt to predict what the economy and the markets will do in the coming year. Later in the year, nearly all of the forecasts turn out to be wrong."

This year the "experts" are predicting about a 10% advance in the S&P Index, that interest rates will have a meaningful rise, and gold will continue to spike higher. Housing prices, in depressed areas such as Florida, are projected to decline another 5-15% while major urban centers will see the return of price stability. Unemployment is forecast to move to 9% and some pundits see the rate in the high 8's. Your guesstimate may be better than the experts!

2010 was a Jekyll and Hyde Year

US stocks turned in positive results for the full year in 2010, with investors earning rewards for the equity, small cap and value risk factors. However, capturing the market rate of return required plenty of patience: eight months into the year the S&P 500 Index was still down 5.8% and the tepid economic recovery appeared to put a lid on any significant upturn in prices. Nevertheless, stock prices surged over the subsequent five months and the S&P 500 ended the year at 1257.64, up 12.78% (price-only), recouping all of its losses since the collapse of Lehman Brothers on September 15, 2008.

Results were generally similar in non-US markets, with 37 out of 45 countries tracked by MSCI achieving positive returns in both local and US dollar terms. The US ranked 22nd in dollar terms and 23rd when expressed in local currency. Peru and Thailand vied for the top spot (up 53% and 56%, respectively) while Greece and Spain landed in the cellar.

Throughout the year, investors had no trouble finding reasons to fret about the future and many remained on the sidelines. Here are just a few of the negatives we faced last year:

The *Economist* in January, 2010 warned of asset price bubbles asserting that US stocks were "nearly 50% overvalued."

- The "January Indicator", whereby stocks closed down in January, signaled poor stock market performance for the remainder of the year. So much for this as a reliable indicator.

The drilling rig explosion in April produced an uncertain disaster and an expensive oil spill in the Gulf of Mexico. Brazil's rig regulations are so much tougher than our wimpy ones.

The "flash crash" on May 6th saw the Dow Jones Industrial Average plummet over 1100 points in the course of a few frantic minutes. Fortunately, it happened so fast and was over so quickly that most of us didn't even know it had occurred.

Numerous bank failures revealed continued weakness in the financial regulatory system. It looked like musical banks to me. Which ones got their chair of support pulled out from under them?

Congress was a partisan battleground of near epic proportions with a lower approval rating than Attila the Hun.

Housing remained weak, with monthly sales of new homes falling, at one point, to the lowest level since tracking was initiated in 1963. When will we say, "They were so smart to be buying then?"

North Korea, according to some media reports, was ready to launch WWIII. The news triggered a yawn outside of Southeast Asia.

Europe was set to implode, with Portugal, Ireland, Greece and Spain launching the turmoil. Don't you love the "PIGS" acronym used by the press?

During most of 2010, we functioned with major tax uncertainty as the Bush tax cuts were set to expire and estate taxes were expected to revert to just a one million dollar exemption. Patience was rewarded in 2010, and fortunately Mr. Hyde didn't linger on the investment scene during the last four months of 2010.

It's that time of year when many of us think about establishing one or more New Year's resolutions.

Everybody wants to be healthier, and many people want to be wealthier, but it's just not that easy. Most of us are creatures of habit and discover that making permanent changes in our behavior is surprisingly difficult. We need every possible mental crutch at our disposal to help us adhere to a new regimen. Personally, I make many new resolutions each year.

To make matters worse, our commitment to change is sometimes tested by examples of those who ignore prudent behavior to their apparent advantage, and of those who follow it to their apparent detriment. Winston Churchill lived to age 90, fortified by an ample supply of cognac and cigars, while author and jogging enthusiast Jim Fixx died of a heart attack at age 52. These isolated examples may test our faith, but should not encourage us to abandon a proven set of prescriptions. Continuing to apply them will still improve our odds.

Years ago I made a commitment which I have kept. I do not and will not confuse the printed opinions of pundits or the oral forecasts of market commentators as advice. I know it for what it is--entertainment. It is nothing more than amusement!

Suzanne Shank

Thanks to you and your referrals we continue to grow. Sue joined us in November as our operations manager. She has seven years' experience in the financial sector, having worked previously with two other financial advisors. Her areas of expertise include handling and processing all forms of client requests/activities, such as account openings, transfers, cash requests, wire transfers and disbursements. She is responsible for the day-to-day operations of the office and interacts with clients on a daily basis. Sue maintains our CRM (client relationship management) and office workflow. Sue is a single mother of her second grade son. We have had the benefit of her presence for nearly two months now, and to say we are pleased is an understatement. She is definitely client-oriented and here to assist you. She looks forward to speaking with you and introducing herself.

Just the facts Ma'am

Sgt. Joe Friday in the Dragnet series didn't want opinions, *just the facts Ma'am*.

These are some facts that you may find interesting and that guide our investment philosophy and our allocation strategy for your personal account.

Including international funds in a portfolio enhances return while reducing risk.

The average domestic Bull market during the past 84 years has lasted 413 days.

The average Bear market during the past 84 years has lasted 220 days.

The average Bull market return is 58%.

The average Bear market return is -21%

Small cap and Value stocks have outperformed Large cap and Growth stocks.

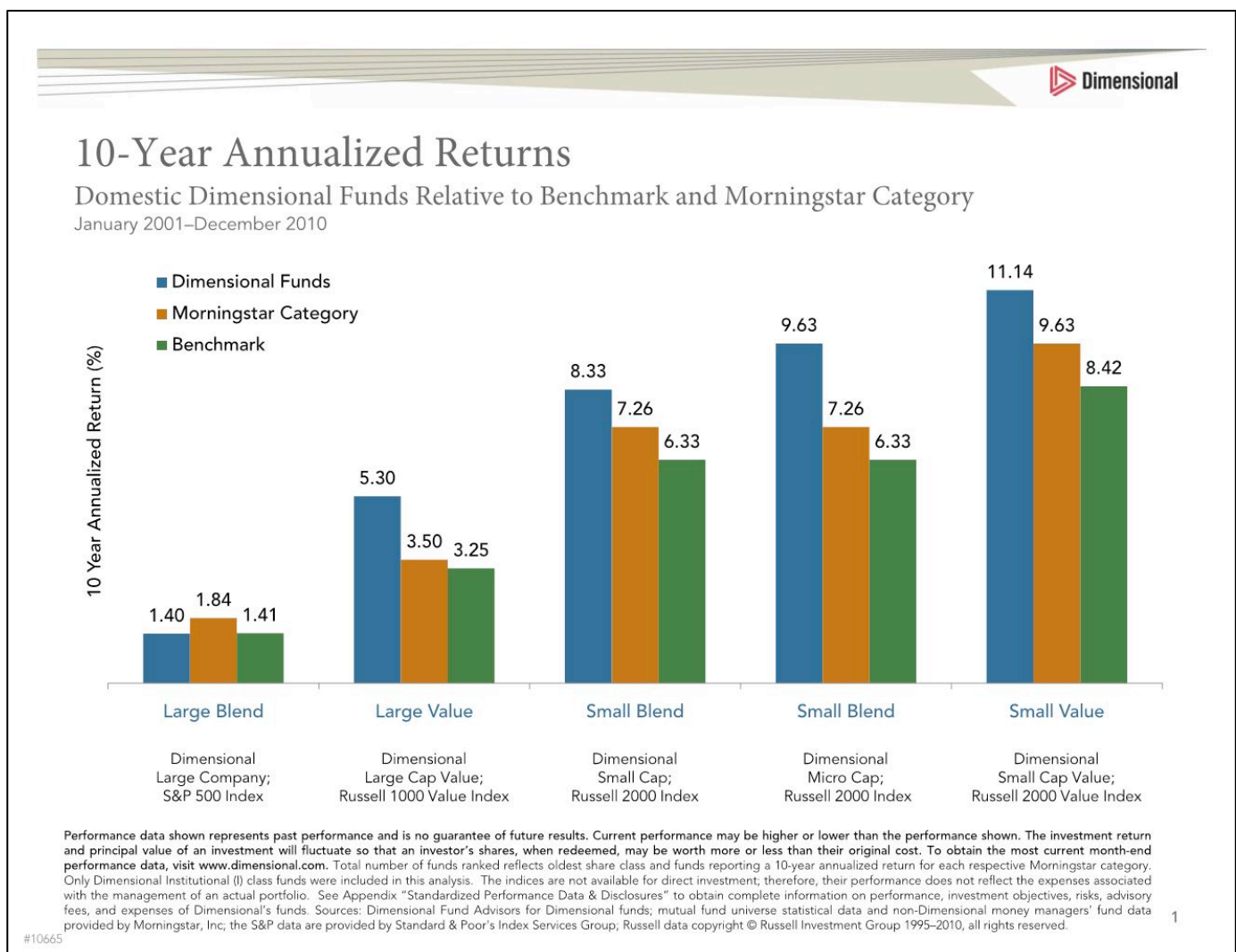
77.75% of active managers have not outperformed a diversified portfolio of S&P Indices.

Dimensional Funds engineered indices are the core of our portfolios. As the following graphs show, over a ten-year period these funds handily outperformed their benchmark indexes and competing funds.

Graph Explanation

The following two pages of graphs were just updated through December 2010. They show the performance of eleven different asset classes of Dimensional funds versus two independent benchmarks for each asset class. The first page is for domestic funds and the second is for international funds.

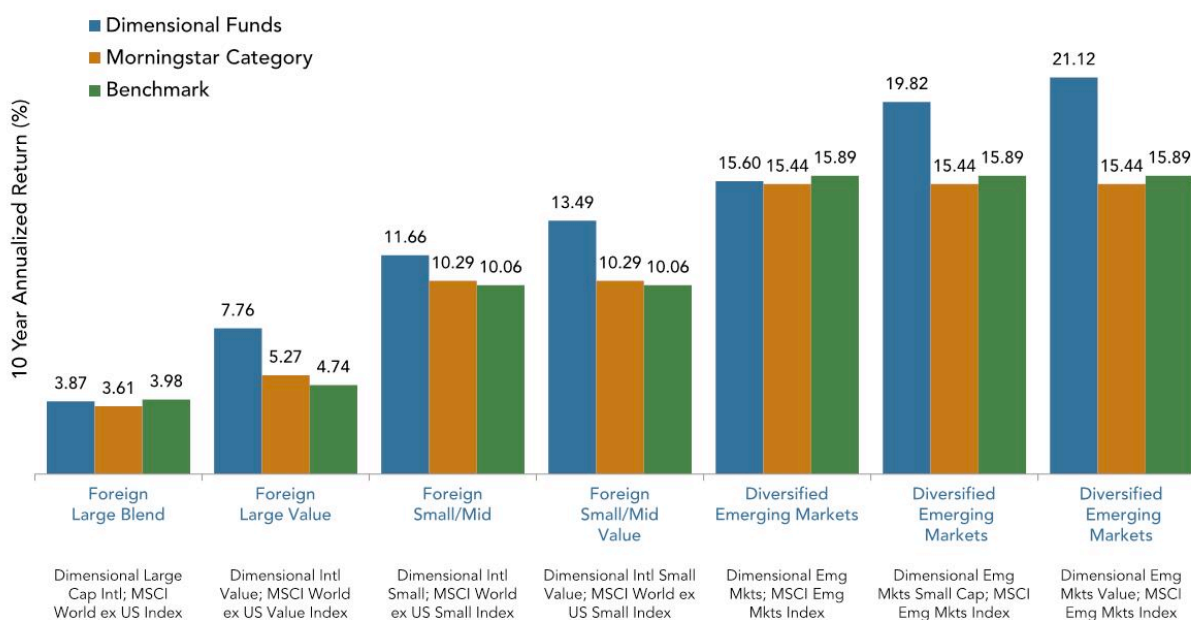
Cumulatively, the Dimensional international funds outperformed their benchmarks by 22% while the domestic funds beat their respective benchmarks by 39%.



10-Year Annualized Returns

International Dimensional Funds Relative to Benchmark and Morningstar Category

January 2001–December 2010



Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain the most current month-end performance data, visit www.dimensional.com. Total number of funds ranked reflects oldest share class and funds reporting a 10-year annualized return for each respective Morningstar category. Only Dimensional Institutional (I) class funds were included in this analysis. The indices are not available for direct investment, therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. See Appendix "Standardized Performance Data & Disclosures" to obtain complete information on performance, investment objectives, risks, advisory fees, and expenses of Dimensional's funds. Sources: Dimensional Fund Advisors for Dimensional funds; mutual fund universe statistical data and non-Dimensional money managers' fund data provided by Morningstar, Inc; MSCI data copyright MSCI 2010, all rights reserved.

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A Tug of War between the forces of good and _____?

The SEC must submit a report to the House and Senate financial committees by January 21st about the regulation of financial advisers. The big issue is the disclosure of conflicts of interest.

Right now two standards exist. We Investment Advisers, who don't sell products, adhere to a fiduciary duty that requires us to act in the best interests of our clients. Drum roll here..... stock brokers do not have to act

in the best interest of their clients; they are subject to a less stringent standard. As you can imagine, the broker/dealer community is fighting like hell to stop this new standard of full disclosure.

Potpourri

The Long-Term Care (LTC) insurance market is in turmoil. Last year, three of the top LTC insurance providers applied to state regulators to raise premiums by as much as 40%. MetLife went a step further. It stopped selling LTC altogether. The problem is us, more of us, living longer. It is not unusual for our 60 and 70 year-old clients to have a parent still living. More of us, plus the rising costs of health care, have thrown the LTC industry for a loop. We continue to recommend LTC for some clients and pass on it for others. Each situation, we find, is unique.

Food, in my opinion, has been a bargain for years. Not restaurant meals, but the goods sold in grocery stores. Markups are very modest and volume is what enables most chains to make a profit. Now I see signs that higher prices may be coming from the producer sector. All costs associated with farming continue to squeeze the grower. Oil is just one of them. It is estimated that 10 barrels of oil equivalents are required to feed each one of us. Water costs are set to skyrocket in some areas too. I now have a dozen seed catalogues I'm perusing. Come the end of February my seed starting shed will take on a new life. If you come by the office this spring or summer bring a basket, so we can give you some vegetables.

We are required to offer you a copy of our ADV II. It is a disclosure document we file with the SEC by March 31. If you would like a copy, please let us know and we'll be pleased to send you one. On an important note, we have had no known consumer complaints, fraud charges, theft, money laundering, false or fabricated reports or other issues of transgression during 2010. Actually, none for the 32 years we've been in business.

We have some clients whose health has outwardly deteriorated over the last year. We are so saddened by this and find ourselves really helpless to change the course of events. We don't want to be a pain or problem to the family by making frequent inquiries. We do wait, somewhat impatiently, to be brought up to date. You have our cell numbers. Mine is 301 512-6509. If there is anything I or we can do at any time, please don't hesitate to call. I believe the only product we make here is friendships.

Wishing you all a healthy, pleasant and prosperous decade.

John and Derek and Dawn and Sue.

