

## The Best of Times, the Worst of Times

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For the twelve-month period ending May 31, 2011, equity investors around the world enjoyed the equivalent of blue skies and bright sunshine while the economic news was partly cloudy at best. Among forty-five developed and emerging-country stock markets tracked by MSCI, all but four had double-digit total returns (in US dollar terms), and twenty-six had returns of 30% or more.

If someone had told us a year ago that global markets would stage such a broad-based rally, we would have been inclined to think that trends in employment, housing, and financial distress were about to take a pronounced turn for the better. It seems hard to argue they have done anything of the sort. Somehow, despite gloomy financial page news that keeps repeating itself, equity prices marched substantially higher.

The moral of the story? Investors should be skeptical of their ability to predict future events and even more skeptical of their ability to predict how other investors will react to them.

| Last Year's Headlines   | This Year's Headlines  |
|---|--|
| <b>"Europe Crisis Deepens as Chaos Grips Greece"</b><br>Sebastian Moffett and Alkman Granitsas. Wall Street Journal, May 6, 2010                        | <b>"Greek Woes Fuel Fresh Fears"</b><br>Marcus Walker and Hannah Benjamin. Wall Street Journal, May 10, 2011             |
| <b>"Fearful Investors Are Pulling Out"</b><br>Adam Shell. USA Today, May 20, 2010   | <b>"Fear Wins: Stocks Resume Long Slide"</b><br>Adam Shell. USA Today, June 16, 2011                                     |
| <b>"Housing Prices Remain Weak"</b><br>Sara Murray. Wall Street Journal, May 26, 2010   | <b>"Home Market Takes a Tumble"</b><br>Nick Timiraos and Dawn Wotapka. Wall Street Journal, May 9, 2011                  |
| <b>"Fear Returns—How to Avoid a Double-Dip Recession"</b><br>Cover story. Economist, May 29, 2010   | <b>"The World Economy—Sticky Patch or Meltdown?"</b><br>Cover story. Economist, June 18, 2011                            |
| <b>"Spill Tops Valdez Disaster—Deep Trouble: There Was 'Nobody in Charge'"</b><br>J. Weisman, G. Chazan and S. Power. Wall Street Journal, May 28, 2010 | <b>"Japanese Nuclear Crisis Is Ranked at the Level of Chernobyl"</b><br>Mitsuru Obe. Wall Street Journal, April 12, 2011 |
| <b>"Discouraging Job Growth Batters Stocks"</b><br>Don Lee. Los Angeles Times, June 5, 2010   | <b>"Jobs Data Stoke US Recovery Fears"</b><br>Robin Harding, S. Bond and M. Mackenzie. Financial Times, June 4, 2011     |

**"Economic Outlook Darkens"**

Jonathan Cheng and Justin Lahart. Wall Street Journal, June 2, 2010

**"Stocks Plunge Amid Fears That Global Economy is Slowing"**

Christina Hauser. New York Times, June 11, 2011

**"Bond Fund Managers See Signs of a Bubble"**

Sam Mamudi. Wall Street Journal, June 8, 2010

**"Why Are Investors Still Lining Up for Bonds?"**

Jeff Sommer. New York Times, May 29, 2011

**"Rapid Declines Rattle Even Optimists"**

E.S. Browning. Wall Street Journal, June 14, 2010

**"Investors Shaken by the Fear Factor"**

James Mackintosh. Financial Times, June 18, 2011

Past performance is no guarantee of future results.

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