

A WORD FROM THE ADVISOR

Controlling the Controllable



"We must never take for granted the precious gift of hindsight."

Wow! What a quarter!

The S&P 500 is up 56.4% from March lows, and up 19.4% through the end of the quarter. Oakwood's global strategies, using our customized mix of Dimensional funds, have done substantially better year to date. Even with this 2009 strength, many Oakwood clients tell us that they remain cautious about the future. Since, as you know, we don't pretend to know exactly what the future will bring, we devote this edition of "Word from the Advisor" to address that caution. We look at it from the perspective of behavioral biases that invariably interfere with investment decision making — if you go it alone. We believe that knowledge combined with discipline is a key differentiator in Oakwood Capital Management's approach. We also believe that by understanding and controlling biases, we achieve a better investment outcome.

Nerves all around

Behavioral research indicates that humans are not naturally wired for prudent, long-term investment decisions. And it's been a roller coaster ride since the bottom fell out of the equity market last year. Only a few months ago, at the market

bottom, it was widely reported that many investors, fearful of further declines, resisted buying equity shares. This was viewed by many as a perfectly reasonable emotional response to the carnage. At Oakwood, however, we saw opportunities and made selective buys. Now that the market has rallied, many of those same fearful investors are afraid to buy because the market 'feels' elevated — an equally emotional response. Emotions can trip you up — individuals who invest without the benefit of professional management are particularly vulnerable. The same investors who sell at or close to market bottoms are equally likely to be buying at market tops. Buying high and selling low is the curse of the emotional investor. Therein lies the need for and benefit of an objective and disciplined professional investment advisor like Oakwood.

The price of market timing

Can investors time the market? According to research by the well respected Dalbar, Inc, the answer is no. Their recent study, "Quantitative Analysis of Investment Behavior 2009," shows that from 1989 to 2008, the S&P 500 returned 8.35% per year, compared to 1.87% per year for the average equity investor. Over those twenty years, this means that the average investor's \$1.00 investment would have grown to only \$1.45, much less than the \$4.97 if they simply invested in an S&P 500 index fund. The lesson is that most investors tend to buy high and sell low. The point is that long-term disciplined investors, like Oakwood, can historically earn significantly better returns than those who try to time the market.

What's the problem with emotions?

Traditional financial theory presumes that investors are rational and always act in their best interest based on available information. However, the burgeoning field of behavioral finance has convincingly debunked those assumptions. In fact, investors are subject to a slew of powerful irrational biases which lead to poor investment decisions.

At Oakwood, our seasoned managers strive to implement disciplined, well-researched, sound investment decisions that look beyond all the noise in order to counteract this effect. In making these decisions, we focus on the following questions: (i) What are the most common behavioral biases? (ii) How do these biases affect decision making? (iii) How can investors control their biases?

continued on page 2



Capital Management LLC
1990 South Bundy Drive Suite 777
Los Angeles, CA 90025
www.oakwoodcap.com
310-772-2600 800-586-0600



Have you experienced these feelings?

The following behavioral biases can impact your investments:

- **Overconfidence:** Surveys consistently show that investors generally expect to do better than the overall market. This is the flip side of optimistic bias, the expectation that bad things will only happen to other people.
- **Hindsight:** In retrospect, past events seem easy to predict. People consequently tend to believe that the future is equally easy to predict. But in fact, hindsight is not always 20/20. This creates the familiar refrain, ‘How could I have been so stupid?’
- **Familiarity:** Many investors concentrate their wealth in a few well-known companies with which they are familiar. Others like to hold onto “legacy” stocks. Familiarity gives the mistaken impression of control, and offers a false sense of security. But in fact, the market does not reward investors with risk premiums for “loyalty” or “familiarity.”
- **Regret avoidance:** Instead of acknowledging a mistake and realizing a loss, investors hope that a stock will recover. Professional investors understand that minimizing losses can contribute more to overall performance than maximizing gains. Counterfactual thoughts lead to regret. “If only I had not made the decision to buy X.” But, you *did* buy X, so thinking of not buying it in the past is counterfactual.
- **Self attribution:** People tend to take credit for good things that happen and blame others when things go wrong. They attribute success to self-possessed skills or inherent abilities, and attribute failures to externalities that they could not know or control.
- **Extrapolation:** Believing that the future will follow in the same direction as the past. However, the future is inherently unknowable, and consistently confounds all forecasts and predictions.
- **News:** News can influence or affect a decision. As professionals, we do not react to it; rather, we see past the news, calling it the “noise.”

Insulating investment decisions from emotions

Now that we’ve highlighted some of the emotional factors that hinder investors, what are we suggesting? That you remove your emotions? Not possible. So what do we do? At Oakwood, we carefully distinguish between things within our control and those beyond our control or influence. Oakwood’s disciplined approach focuses on key controllable factors which have a huge impact on investment performance. These include (i) adhering to discipline, (ii) soundness of investment choice, (iii) diversification, (iv) reducing expense, (v) minimizing taxes. We avoid getting distracted by things we cannot control, for example, the financial press.

We don’t try to time the market – as we have shown, this is futile. Instead, we focus our attention on ensuring the best risk/return profile for our clients. We use tools to blunt the effects of behavioral biases, tools like spending time with a client to properly assess their level of risk, thereby resulting in an appropriate asset allocation. In addition, we use the tool of disciplined rebalancing.

Patience and dispassion

We believe in locking in returns following a good run, and redeploying capital into other more attractive opportunities. We exercise this discipline (not to be confused with market timing) to take profits once a pre-set target price is achieved. If we find nothing that meets our standard for risk/reward, we are perfectly content to temporarily park funds in short-term fixed income instruments and wait patiently for an opportunity to arise. It’s our philosophy that free markets must compensate investors for bearing risk. We also believe that since the market is “forward looking,” that the expectation of risk is priced into the market today. The underlying principle is to make decisions based on an individual investor’s own needs and risk appetites, and avoid getting sidetracked by someone else’s opinion about what the market will do next year, next month, next week, or tomorrow.

Jason Zweig in “Your Money and Your Brain” notes that “emotion overwhelms reason,” and that “financial losses are processed in the same area of the brain that responds to mortal danger.” Uncertainty is an unavoidable and intrinsic component of investing, as well as life. But there are many things we can control. This is where Oakwood strives to add value and protect you. ■



An International Flair

While investors in US-focused investments have enjoyed large gains as the market recovers, investors in international markets enjoyed even larger gains in the third quarter. Stocks worldwide continued to climb off their bear-market lows of March. Gains by many established European markets also outpaced the second quarter. Emerging markets also rose, but at a slower rate.

In Europe, shares rose on a tide of easy credit and 'green shoots' of economic turnaround. The UK, German and French indexes all finished the quarter higher. France's CAC-40 was up 21%; the UK's FTSE 100 gained 21%; and Germany's DAX added 18%. Across Europe, it was the financial sector that recovered most dramatically.

The outperformance of international stocks reflects the fact that they fell

even further than their US domestic stock counterparts during the crash.

Beyond recent results, favorable underlying trends contribute to the allure of emerging markets and global real estate. Government, corporate and household debt in emerging market countries remains modest — especially relative to developed nations. Demographics — a relatively young population and a growing middle class — also favor growth.

In Asia, however, China's Shanghai Composite Index faltered in the third quarter, down 6.1%. But, the index had already gained almost 63% in the first half of 2009, on signs that the Chinese economy had bottomed out. Over the summer, slowing bank lending worried investors, raising the possibility that the Chinese recovery was perhaps not sustainable. As the fourth quarter kicks in, we see China reverting to the continuation of its strong recovery.

Japan's Nikkei Stock Average of 225 companies rose just 1.8% in the quarter. The yen strengthened against the US dollar, which their new government hasn't tried to curb. That marks a change from prior years, when the Bank of Japan often intervened to keep the Japanese currency weak. Excessive yen strength could hurt the profitability of some of the larger Japanese exporters. Japan is very export-oriented. A muted recovery in global consumption is a challenge to the Japanese market. ■

Oakwood Conservative Global Equity

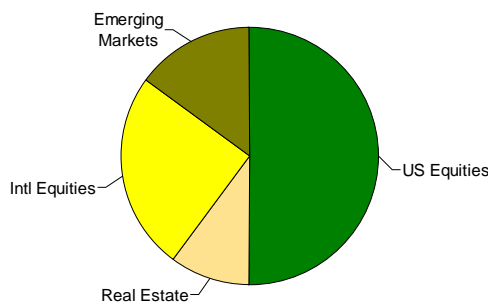
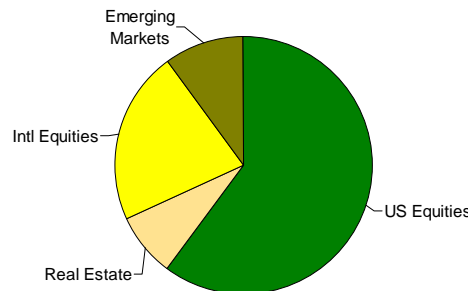
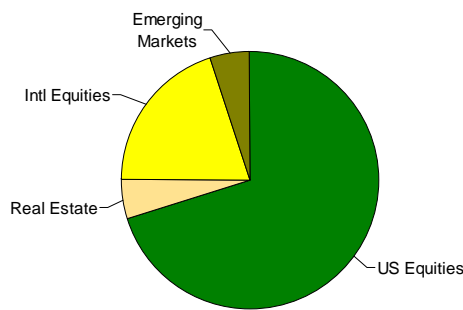
- Balance of value and growth as well as large, medium and small capitalization stocks
- Suitable for investors seeking income and long term capital appreciation

Oakwood Moderate Global Equity

- Has an increased bias towards value by using multiple asset classes and greater emphasis on smaller capitalization stocks than the conservative strategy
- Suitable for investors seeking above average returns through long term capital appreciation

Oakwood Aggressive Global Equity

- Has a higher non-US companies component as well as a greater value tilt and emphasis on smaller capitalization stocks than the moderate strategy
- Suitable for investors with a higher tolerance for risk seeking higher returns through long term capital appreciation



What Helped Global Strategies in the Quarter:

- US & Int'l Real Estate (REITs)
- US Small Cap Value
- Emerging Markets

What Hurt Global Strategies in the Quarter:

- Cash

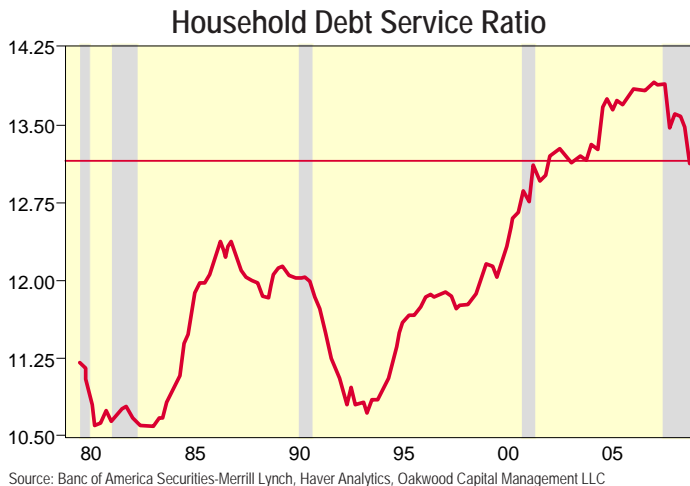


Are Bears Hurting?

Another great quarter! The third quarter of 2009 closed with both the Dow Jones and the S&P 500 indices up +15.9% and +15.6% respectively. Year to date these indices are up +13.7% and +19.4% respectively. Financials, Materials and Industrial sectors led the advances.

A frugal uptick in GDP

In the second quarter of 2009, gross domestic product, which measures total goods and services output within the US economy, was adjusted upward, to a mere 0.7% drop in the annual rate, compared to the Government's first estimate of a 1.0% decline. This was a substantial improvement from the first quarter-drop of 6.4%. The economy, which is expected to slowly revert to growth, is targeted for positive growth of 3-4% in the third and fourth quarters. Because of the consumer's heavy debt burden, as shown in the graph below, and the continuing high rate of unemployment, the 2010 economy is projected to only grow a modest 2-3%, substantially below previous recessionary turn-arounds. Bear in mind that the data showing economic growth will not be in a straight line, but will be up and down over the next two years due to the consumer debt burden and a slow decrease in the rate of unemployment.



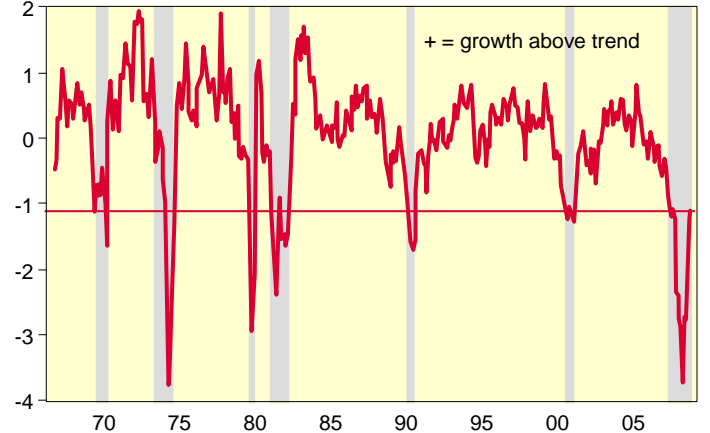
Future watch

While the muted recovery is a concern, we need to keep perspective. By 2012 the economy will have gone through an extended period of healing. With a steep yield curve and improvement in the rate of unemployment, financial institutions should be able to make notable progress in repairing their balance sheets and the government's fiscal stimulus should have been worked off. Also, household balance sheets should have improved as debts are reduced or written off, foreclosures fade, home prices creep higher, stock prices rebound,

and the savings rate increases. All of these factors will aid the recovery.

In addition to the financial and household sectors, the manufacturing sector also shows signs of recovery. The three-month moving average of the Chicago Fed's National Activity Index continues to improve.

FRB Chicago National Activity Index: 3 Mo. Moving Average



We monitor this index because it is a composite of 85 different indicators drawn from five categories: i) output and income, ii) employment, unemployment and hours worked, iii) personal consumption, housing starts and sales, iv) manufacturing and trade sales, and v) inventories and orders.

Although we are positive on the economy by 2012, right now, frankly, it's still on life support. We want to believe that the government's stimulus package and its unwinding will succeed, but either one could be a stumbling block to a successful and full recovery of both the economy and the financial markets.

Role of trade imbalances

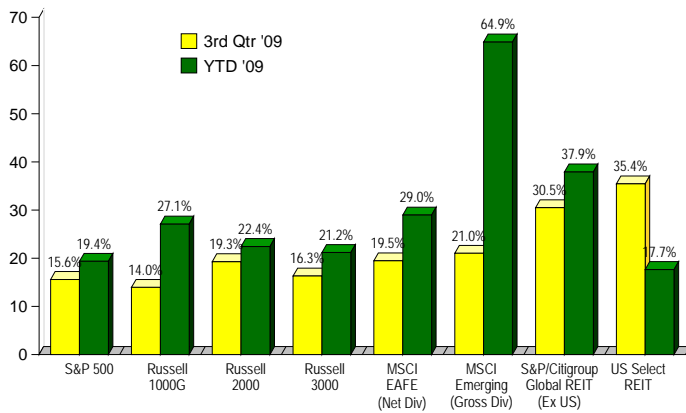
Economist Dr. Ed Yardeni wrote recently that the global financial crisis of the past two years has been caused by Americans who could "not say no" to spending and borrowing more, and saving less. As a result, both the US trade and federal budget deficits swelled. The two biggest US trade-surplus nations are Japan and China, buying the most in US securities, especially Treasury and mortgage-backed securities. In a recent meeting in Pittsburgh, G20 nations pledged to cooperate to end the imbalances. While balancing the global economy is a worthwhile long term goal, a more important goal is increasing world trade. With world trade and economies improving we are comfortable in currently owning international stocks, especially emerging countries.

continued on page 5



Equity Market Indices

Year to Date Performance through September 30, 2009



Source: Frank Russell Company, Standard & Poor's Index Service Group, MSCI data copyright MSCI 2009, Dow Jones Indexes, Oakwood Capital Management LLC

Earnings reports

The third quarter earnings season is about to start. The beginning of the year was marked by the continuing disaster in the Financial sector. Today, thanks to the April 2nd suspension of mark-to-market accounting, large-capitalized banks have an opportunity to produce positive earnings surprises for the third quarter. The change in accounting is one of the major reasons investment banks and large commercial banks have performed well since April 2nd, powering the market's upward movement. The S&P 500 consensus earnings estimate for the third quarter, as well as estimates for 2010 and 2011, are reasonable and add to our comfort in owning stocks, but remember that the economy is fluid and can change direction, affecting these valuations.

Oakwood equity strategy

Because of our cautious approach to the economy and its impact on company earnings, we were slow to invest and preferred to own high-quality, low-debt and positive-cash-flow companies. This deliberate strategy muted our portfolio's returns as the market took off. We note that the best performing stocks since April were low stock price, low-quality, high debt, cyclical, or no earnings, high p/e ratio companies – not the kind of stocks we want to own for our clients. We knew that these low-quality stocks would outperform in a straight-up market, but given our cautious nature we chose preservation of capital and quality as overriding goals during that precarious time.

As time has passed, and as we have gained confidence that the government has a handle on the economy, we have slowly broadened our investment exposure. For our Equity Income clients, we increased our weighting substantially in

the Capital Goods sector, adding four multinational companies representing a broad spectrum of industries. In addition, we swapped our gold company into a more cyclical company which mines copper and gold. We also increased the weighting in the Technology sector, adding a major computer/printer firm, a company that manufactures CDMA-based integrated circuits, and a company that markets small-business accounting software. For our Capital Appreciation clients, we added a company that develops semiconductor packaging technology.

Because of favorable price appreciation, we trimmed the weightings for three stock positions, two in Capital Appreciation and one in Equity Income. Also, in the Equity Income strategy, we sold one security due to deteriorating fundamentals and swapped a large international oil firm into a more leveraged oil sand play in Canada. We continue to be very positive on oil over the long term and will maintain an overweighted position in this sector.

As the stock market offers opportunities, we will continue to restructure the portfolios to maximize returns. ■



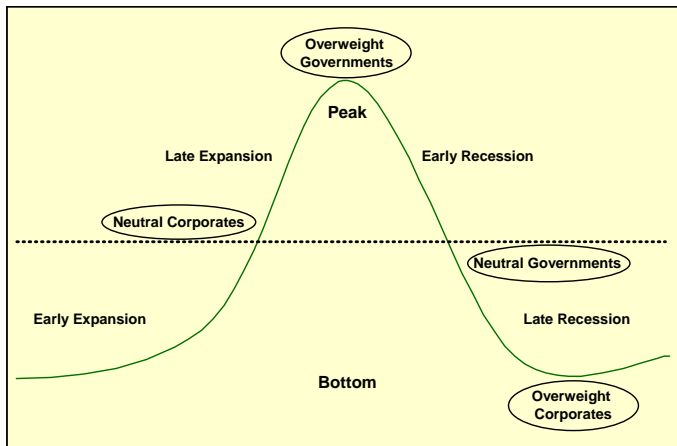


Managing Through Cycles

With one quarter remaining, 2009 is shaping up as a year of positive bond returns in a low inflation environment. This extends the long time frame in which high-quality taxable bond investors have received consistent portfolio growth along with asset protection. In fact, not since 1994 has the benchmark Merrill Lynch 1 to 10-year Corporate/Government Composite posted a negative yearly return.

As you may know, yield levels on most taxable asset classes are low, with the exception of “junk” or high-yield bonds. To increase the potential for return, we continually examine trends in the economic cycle to assist in investment decisions. The graph illustrates how the economy grows until the cycle reaches its “peak,” or maximum point of growth; at which time it then tires, or is forced down by Federal Reserve actions, to a “bottom” or low point in the cycle.

Economic Cycle



Source: Oakwood Capital Management LLC

Riding the cycle for client advantage

To take advantage of market dynamics, we upgrade our security choices, often to Treasuries, as the economy approaches its peak. This is designed to protect assets against an expected decline in company fundamentals that cause corporate bonds to underperform as yields move higher.

Then, as the economy begins to contract under the weight of a tighter monetary policy and a need for companies to restructure operations, we await the economic bottoming out. This provides us with an opportunity to lower our Treasury quality standards and increase our corporate bond holdings. As stated earlier, our goal is to add to return over and above the general level of interest rates.

Monitoring and tracking tools

Now, it’s almost impossible to predict the exact moment when economic contraction will give way to expansion. However, in trying to do so, we track key factors that most influence the markets and the economy. One such indicator is the price of energy. Approximately one year ago, a barrel of oil reached \$147, which resulted in a significant hindrance to economic growth. Today, oil is around \$70 a barrel and the economy appears ready to grow. We note that if oil were to move substantially higher or lower, it could have a significant impact on the direction of the economic cycle.

Other critical factors we monitor include inflation reporting, monetary policy, stock market trends and the level of corporate yield spreads. For example, corporate yield spreads, a sign of economic well being, have contracted to the point that companies can now access capital markets at a favorable rate. This environment provides companies with a valuable tool to refinance outstanding debt and/or to expand operations. As bond holders, we also receive a return benefit.

Most key factors now point to economic growth. We therefore maintain our overweighting in corporate bonds. The key to success is our ability to react quickly to the “drivers of change,” rather than trying to predict outcomes. It is our nature at Oakwood to proceed with caution. Yes, retail sales and housing are beginning to show signs of life and the worst in unemployment seems near. But much of the improvement may result from Government spending and tax subsidies. Nonetheless, we stand ready to alter our structure quickly. This may involve a return to the safety of Treasuries, if we abandon hopes of an economic recovery and a bottom in the cycle. ■



MUNICIPAL BOND COMMENTARY

Munis March On

Once again this year, municipal bonds are rewarding investors with solid performance, on both an absolute and inflation-adjusted basis. In fact, demand for tax-free bonds is easily outstripping the market's available supply. For some investors, this may be hard to reconcile given the sharp drop in tax receipts to municipalities that led to an overall decline in bond credit quality. But clearly, investors still see municipal bonds as a safe haven during weak economic periods.

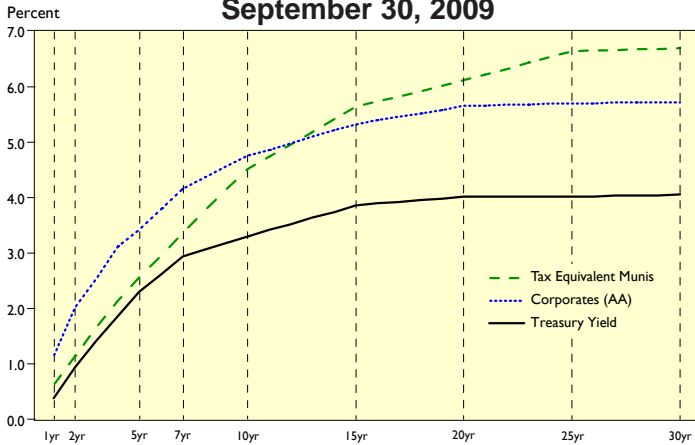
In prior Oakwood Outlooks, we concurred with consensus forecasts that the revenue situation could indeed worsen. We felt, however, that investors would take comfort from the fact that municipals have an extremely low default rate and have consistently delivered much better credit protection than corporate bonds. In this view, we have been proven correct.

Leaning toward longer durations

Looking ahead, the demand for tax-free bonds should continue to grow as municipalities operate more efficiently and take action to adjust their budgets. There is growing evidence that the economy has bottomed and that prospects for future growth are near. Also, there appear to be few signs, for now, that inflation will force yield levels higher. Collectively, these factors should provide market stability, and give municipal bonds a competitive advantage over investment-grade corporate bonds on a tax-adjusted basis.

Because of the natural competitive correlation of tax-free bonds to taxable bonds, we use comparative Treasury and corporate bond yield levels as part of our security selection process. The chart illustrates the present relationship between these alternative asset classes.

Tax Equivalent Yield Comparisons
September 30, 2009



Source: Bloomberg L.P., Oakwood Capital Management LLC

We view the short maturity area as unattractive. Municipals on a tax-equivalent basis are well below similar quality corporates and yield barely 1% on an unadjusted basis. However, we see good value in the longer maturity areas. The sharp steepness in the maturity curve, combined with a substantial compression in corporate bond yield spreads, works to the benefit of this longer maturity area. For example, a 15-year municipal at a yield of 3.50%, equates to a taxable equivalent near 5.40% for investors in the highest tax bracket. This represents a clear yield advantage over high quality corporate bonds. Investors could capture even more yield, if they chose to relax credit standards in favor of lower quality investments.

Budget discipline and historical low default rates alone will not cause us to drop our current high-quality preference. We need to see concrete employment gains as evidence of a clear directional change in the economy before we expand the breadth of our bond selection.

California realities

Although we expect states to successfully close recurring budget gaps, we continue to avoid California bonds on a state-level basis. We are focusing instead on essential service-type bonds and local municipality general obligations, which are secured by a predictable revenue source or dedicated property tax. The expectation is that an improved economy will be followed by growing tax receipts, and that housing prices will stabilize and again move higher. This will prompt consumer spending, a critical revenue source to states.

The current market environment presents an interesting set of opportunities. We may soon begin to swap our heavy weighting in pre-refunded bonds over to insurance-backed bonds for added yield. We believe the almost endless battering of secondary insurance carriers that led to numerous downgrades will soon be resolved. This means that some carriers like AMBAC and FGIC will no longer exist, while others like Assured Guaranty and Buffett's Berkshire Hathaway Assurance Corporation will dominate. As new deals emerge from the strongest surviving carriers, investment choices will broaden and lead us to a swap from highest quality non-insured holdings, providing attractive yield gains.

As the economy begins to grow, municipalities will restart infrastructure projects, leading to new investment opportunities. And finally, as we approach 2010, discussions will emerge over a return to higher tax rates. This also works to the benefit of those who invest in tax-free bonds. ■