



## FERGUSON ASSET MANAGEMENT, INC.

*Investment Counseling & Asset Management for Individuals & Institutions*

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### **Year Beginning Report and Commentary**

**January 2006**

**Your tax information is attached to this report.** It includes: gains and losses, income and expenses, and all pertinent information for your tax preparer. In years past we have sent duplicate tax information to your accountant if you have asked us to do so. Sometimes they misplace the reports. If they do, we will be happy to send them another copy. They may use the information from the attached report, or we will be pleased to mail or fax them a fresh copy and answer any questions they might have. *If you have a -0- (zero) cost basis on any sale transactions in the realized gain/loss report, please give us a call.*

Our reports may vary slightly from your year-end Fidelity Report. We are required by the IRS to report transactions on the “trade” date. This is normally three business days prior to the “settlement” date. Fidelity and all other brokerage firms are required to report a trade as being effective on the “settlement” date. Confusing! The SEC and the IRS have their own domains and sometimes the twain do not meet. The IRS prevails when it comes to your tax reporting.

If your account(s) were also invested in private investments, mortgages, or other private placements, the interest or dividend income reported by Fidelity to you will not contain the income from these investments. Our income and expense statements will contain this information. We have found in the past that our statements are the default that you should include for your tax reporting.

#### **A Brief 2005 Market Review**

Except for the Dow Jones Industrial Averages (off 0.61%), the year just past saw another positive return for both the domestic and international stock markets. The year started with first quarter declines, then a recovery during the second quarter that brought the markets up to even. The recovery continued until the late summer when oil spike and interest rate hike fears put a damper on the advances. Markets again declined into October, and were showing no positive gains for the year. The last quarter saw a turnaround into positive territory for all, save the DOW

30. For the year the Standard & Poor's 500-stock index gained 3%, while the technology heavy Nasdaq Index gained but 1.37%.

Oil, as we who pump gas know, climbed in 2005 up almost 40% a barrel. Gold rose 18%, and small cap and international stocks, along with some foreign indexes, had a banner year. The DOW 30 was off less than 1%. Japan continued to turnaround as the Tokyo Nikkei Index gained 40.2% for 2005.

### **Dimensional Fund Comment and Performance**

*“Properly measured, the average actively managed dollar must underperform the average passively managed dollar, net of costs. Empirical analyses that appear to refute this principal are guilty of improper measurement.”*

William F. Sharpe, Nobel Laureate in Economics.

What is the number one criterion for successful portfolio performance? The answer is a rising market? What have extensive academic studies revealed as the least important contributor to successful long-term portfolio returns? The answer is individual stock selection? Sector and industry selection have been far greater keys to portfolio performance than stock picking or market timing. Only 3% of stock pickers beat the market, and no market timing newsletters have beaten the market over a 10 year time span.

Twenty eight months ago we began investing extensive research, time, and travel into exploring the Dimensional Funds (DFA). We believe they have the lowest fund expense in the industry and superior returns. Our DFA holdings have an average expense of 0.34% compared to an industry average that approaches 1.25%.

A quote from their literature: “DFA strategies are designed to capture stronger exposure to the factors that drive returns. Our portfolios are fully diversified to eliminate excess risk....” We were so impressed with their history, philosophy, and organization that DFA became the core for building client portfolios. Only a very small percent of investment advisors are approved for transactions in DFA funds, and their funds are not available without going through an approved advisor. No wire houses, such as Merrill, are approved. DFA pays no commissions, has no 12b-1 fees, pays no promotion fees to ranking services, and is little known outside the professional community. Their results are why [www.researchmag.com](http://www.researchmag.com) ranks them #1 in investment management.

### Comparison of DFA versus Various Indices for 2005

Benchmark	The Index		DFA Comparable Fund
Large-cap Value	Russell 1000	+4.39%	+10.24%
Small-cap Value	Russell 2000	+3.4%	+7.79%
EAFE	Morgan Stanley	+11.2%	+13.47%
United Kingdom	Morgan Stanley	+5.8%	+12.63%

Emerging Markets	BLDR index	+37.75%	+31.34%
US Real Estate	Dow Jones REI	+4.1%	+13.15%
Japan Small Cap	Index	+25.2%	+38.29%

DFA has long been the most full disclosure family of funds. It provides the type of seamless information that the SEC now wants other funds to furnish to investors. The DFA website is [www.dfaus.com](http://www.dfaus.com). You will find over 2,500 pages of data available for your perusal. Advisors have ten times that amount available.

Have a wonderful winter. I'll have another report for you in mid-quarter. John