



FERGUSON ASSET MANAGEMENT, INC.

Investment Counseling & Asset Management for Individuals & Institutions

Quarterly Report and Commentary

October 2006

If ever there was a reason for prudent asset allocation, the past twelve months' widely differing performances by various market indices prove the case....diversify!

Case in point, the Dow Industrials was one of the strongest indices last quarter gaining 4.7%, but is only even since 1999. On the other hand, the Russell 2000 (small cap stocks) was flat for the quarter, but is ahead 45% since 1999.

For our internal analysis, we construct a typical industry allocation to use as a performance benchmark. The percentages of assets allocated to this 100% equity (stock) benchmark are:

Benchmark	% Invested	12 month % Return
S&P 500 (large cap stock)	40%	8.6%
Major Market Index (top 20 Dow stocks)	10%	6.6%
Russell Mid Cap Index	10%	5.3%
Russell 2000 (small cap index)	10%	8.5%
NASDAQ Composite	5%	4.9%
NYSE International 100	10%	1.9%
Europe, Australia, Far East Index	10%	6.6%
Emerging Markets Index	5%	4.0%
	100%	

We then compare the benchmark performance against your DFA core portfolio to see how we are doing and what we might improve.

We further look at the returns of the Dow Jones Corporate Bond Index, and the average annualized money market fund yield. We split the non-stock portion into half corporate bonds and half money market funds. The return on the Bond Index was 2.6% and we used 4.8% for the average 12 month money market fund yield.

Here is what the benchmark analysis revealed for the period 9/30/05 to 9/30/06:

The 100% equity benchmark portfolio returned 9.275% for the past 12 months.

The allocation of 70% equities and 30% fixed income returned 7.6%.

The Harry Markowitz (Nobel Prize for the Efficient Market Theory) portfolio of 60% equities and 40% fixed income would have had a 12-month return of 7%.

Of course, one can compile any benchmark for comparison, but we believe the benchmark we use would be accepted by any knowledgeable investment professional.

Dimensional Funds

Performance for the year continues to impress us and the investment community. From the Barron's article to financial talk shows, Dimensional garners impressive positive publicity, and rightly so. The following are year-to-date returns for some of the Dimensional funds we use as core holdings in many portfolios:

US Small Cap Value	+12.02%
US Large Cap Value	+12.71%
Emerging Markets Core	+18.31%
International Core	+20.53%
Japanese Small Company	+3.48%
Intermediate Government	+3.02%
Global 60/40	+9.60%
US Micro Cap	+7.92%

The US Core Equity 2 Portfolio is a new fund that has been available for about a year, and has been added to some accounts. The Portfolio "seeks to purchase a broad and diverse range of US securities with an increased exposure to small cap stocks and those it considers value stocks relative to the market universe." The Core Equity 2 has one of the lowest expense ratios on the street and is capped at .26%. The fund is ahead 10.54% for 2006.

The new core funds were created, in part, to address three issues that conventional funds experience. Namely, they are style slide, trading costs, and capital-gains tax hits. The latter is going to be especially onerous this year, according to the Wall Street Journal, for such funds as the American Funds, which are often sold by commission brokers.

FYI: Eugene Fama-University of Chicago, Kenneth French-Dartmouth, Roger Ibbotson-Yale, Robert Merton-Harvard, and Myron Scholes-Stanford are all distinguished academic leaders who are Board members at Dimensional Funds.

Retirement Plan Distributions and Contributions

During the month of October, we will be reviewing all accounts in which the client is age 70 ½ or older in order to assure that all Minimum Required Distributions (MRD) are made before year end. You may have received a notice from Fidelity announcing that you must make a MRD. We are on top of this for you, and we will send you a distribution form that either issues you a check or, as is more commonly done, simply transfers the distribution to your Fidelity taxable account.