



*FERGUSON ASSET MANAGEMENT, INC.*

*Investment Counseling & Asset Management for Individuals & Institutions*

## **Quarterly Report and Commentary**

**April 2007**

The first quarter saw positive returns, although modest, in virtually every sector of both equity and fixed income investments. During the month of April the gains have continued.

The Dimensional Core Equity 1 Portfolio is ahead 7.49% year-to-date through April 16th, and the very conservative 60/40 fund (40% fixed income) is ahead 4.84% for the year. Not too shabby, but piker's compared with the 19.5% three and a half month gain in the Asia Pacific Small Company Portfolio. Wish I had a crystal ball to know what section of the world will be the hottest the next three and a half months, but I don't. However, I do have an idea as to what might be the better allocation during the next 3-7 years.

I'll share some of my thoughts with you in the following biased and opinionated analysis.

- The information we receive from our local and national newspapers, television and talk radio has relatively zero bearing on what is going on in the world, aside from limited and sanitized information about the war in Iraq.
- Pertinent international economic and business information is available in this country only after arduous and persistent searching.
- We are "sheltered" from information that some minions believe might offend a minority of us.
- We are given statistical information that doesn't hold water, and is used as a basis to support unfounded causes and political agendas.

Here is some of my sanitized, sheltered, statistical, biased, international, and domestic economic data that I wish to share with you.

The world population as of 4PM EST on April 17, 2007 is estimated to be 6,589,377,604 (this is billions). The United States population at the same moment is estimated to be 301,632,080 or

about 4.57 % of the world total. Europe has an estimated 740 million folks, so between the US and Europe we have about 15.7% of the world's citizens.

The world wide "stock market" value is estimated at about \$23 trillion, and the world wide "bond market" at double that value. Various academic institutions place the value of global real estate at a broad range of from \$10-\$14 trillion. Interestingly, I think, is that 75% of this real estate valuation is in the US and Europe.

Western Europe, Japan, and the United States are considered developed economies. India, China and Russia are developing countries and many Southeast Asian and some South American countries are emerging markets.

The United States has the second worst newborn death rate in the modern world according to the annual State of the World's Mothers' Report.

The World Health Organization's ranking of the world's health systems places the United States at #37, just ahead of Slovenia.

The World Competitiveness Yearbook ranks the United States as the #1 most competitive country, as it has been for years. Last year China was #19 up from #31 the year before and India was #29 up from #39.

The World Association of Newspapers reports that 75% of the 100 best selling newspapers are in Asia. The best selling US newspaper is USA Today, which reaches about 2½ % of US households.

Proctor & Gamble and General Electric are just two of the major international companies that expect most of their profit growth during the next 7-10 years will take place outside of the US.

The United States, according to the World Economic Forum, has dropped from first to seventh place in its annual "Networked Readiness Index." According to the forum, this was due to our relative deterioration of our political and regulatory environment.

UNICEF, in a 2003 study from five different international education studies, ranked the US #18 out of 24 nations in terms of the relative effectiveness of its education system.

Since 2001, the British pound versus the dollar exchange rate makes travel to the UK 40% more expensive today than just six years ago. The Euro rate is slightly worse at about 45%. Relatively speaking, American goods and services and second home purchases are a bargain for the British and Euro countries.

When I was growing up, the US was the world leader in education, auto production, chemicals, technology, health, finance, and capital consumption. Today we have only retained our leadership in the dubious consumption of capital.

The world is changing. We, the US, may or may not be treading water, but what is certain and without any doubt is that much of the rest of the world is not simply just treading water. They are making tremendous relative strides in their economic situation.

We expect to increase our allocations to the Dimensional international funds during 2007. Historically, the international sector has been more volatile than our domestic markets, but perhaps not anymore. The domestic sector volatility, as you may recall from the recent February meltdown, has increased.

This increased exposure to international investments is being made after a client by client analysis and the increases, if any, will be prudent in keeping with each of your investment policies.

We have recently revised our ADV II. Enclosed is a copy for your files.

We wish each of you a most pleasant, healthy and prosperous spring.