



December 14th, 2015

A Re-introduction to DFA

Derek Johnson, Principal

Before we get into things this month, I am pleased to announce the newest arrival to the Ferguson-Johnson family. Sloane Elizabeth Johnson was born November 24th at 5:11pm. She was 8lb 4oz and 21 inches long. Both baby and mother are doing well. Congratulations to Derek and Tiffany.



We wanted to take an opportunity with this mid-quarter commentary to review our investment philosophy. As I am sure you are aware, we primarily use Dimensional Funds for the portfolios we construct in your accounts. We believe it is important that our clients understand our choice to employ Dimensional as a tool to help you achieve your goals.

Dimensional is driven by academic research. Just as in the fields of science or medicine, new academic research in finance is immediately met with rigorous testing by other academics who are actively trying to disprove it. Every development in Dimensional's investment philosophy has gone through this process and what's left is a proven strategy for navigating capital markets.

The main over-arching principle of Dimensional's investment philosophy is that markets work. At any given moment, millions of investors are competing with each other to find the most attractive returns. This competition drives prices to fair values ensuring that no investor can expect a greater return without bearing a greater amount of risk.

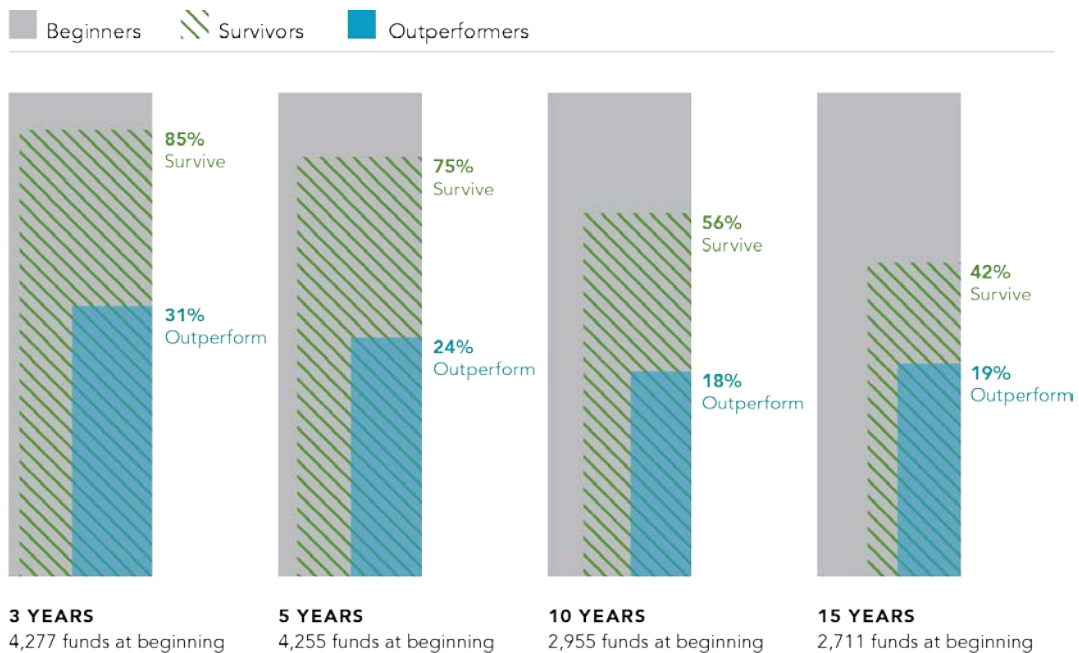
Traditional investment managers attempt to beat markets by seeking out pricing "mistakes". However, too often this leads to managers missing strong market returns by holding (or not holding) the wrong securities at the wrong times. All the while, this active selection drives up transaction costs and management fees further eroding end-returns to the investor. Dimensional aims to keep expenses in a mutual fund low, so that the end investor is able to capture as much return from the markets as possible.

Winners and Losers Based on Expense Ratios – Equity Mutual Funds



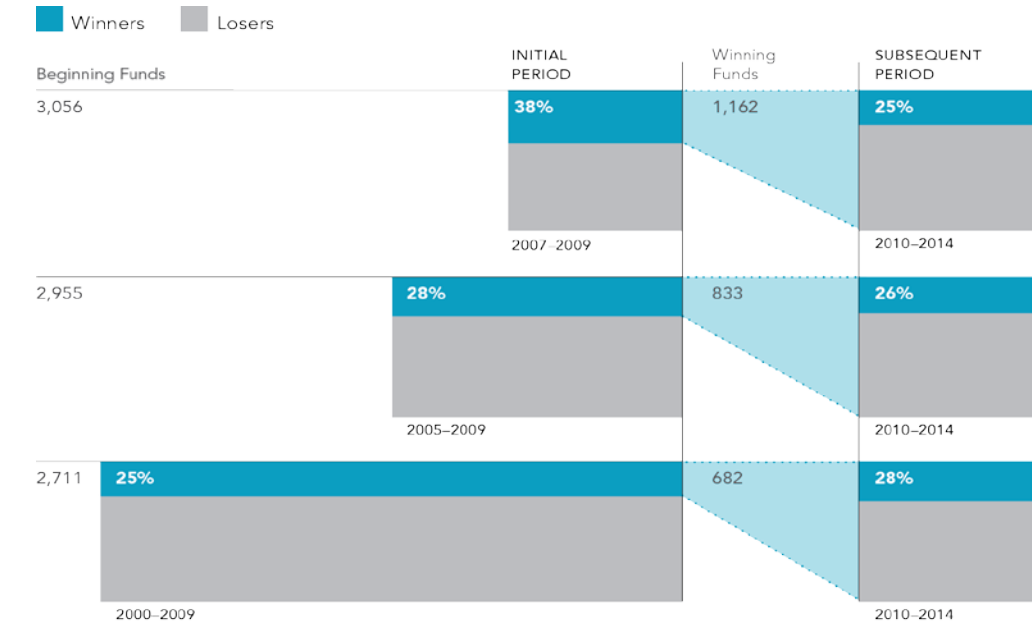
Over the long-term very few managers are able to compete with market returns. Over a 15-year period ending December 31, 2014, only 19% of funds had outperformed their benchmarks and more than half of the funds that began the period have closed.

Survivorship and Outperformance – Equity Mutual Funds



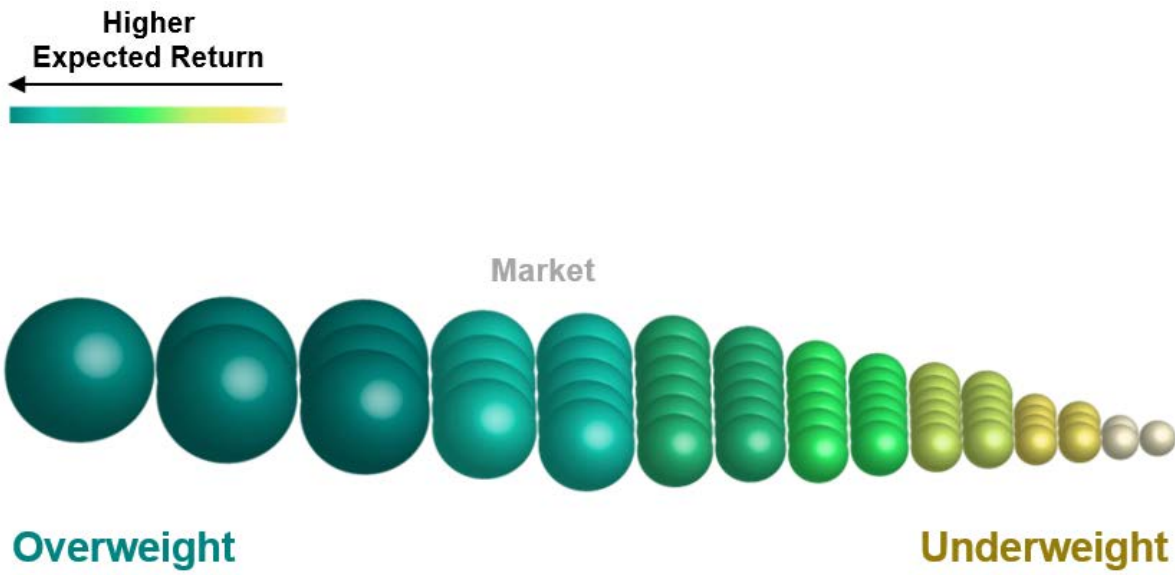
Furthermore, funds that manage to survive and outperform in a given period do not offer an investor an increased likelihood of outperformance in the future. Of the funds that have outperformed in the previous 3-, 5-, and 10-year periods, only about a quarter have continued to outperform in the following five years.

Do Winners Keep Winning? – Equity Mutual Funds



*Source: Dimensional Fund Advisors

Once we reject costly speculation and guesswork, investing becomes a matter of deciding how to allocate wealth amongst asset classes. Research has provided evidence that, over the long-term, certain asset classes outperform others. Dimensional incorporates this information by tilting the weights of funds towards these characteristics. The result allows us to construct portfolios that offer the risk/return exposure best suited to meeting our clients’ needs.



One of the final aspects of the Dimensional strategy comes down to implementation and how DFA manages and trades within their funds. Traditional index investing subjects index funds to adverse trading in exchange for tracking an index as closely as possible. For example, as companies are added or removed from an index, the market reacts ahead of index funds and adjusts the price of these securities forcing index funds to buy or sell at unfavorable prices.

Instead, Dimensional does not attempt to track an index. This allows DFA to trade its holdings opportunistically from a position of negotiating strength.

At the end of the day we are an independent advisory firm. As such, we can use almost any stock, bond, fund, or investment tool we'd like to help our clients achieve their goals. But ultimately, we use Dimensional because we are a fiduciary. We are legally required to act in our clients' best interests and we believe when taking into account performance, fees, tax-efficiency, transparency, and strategy that dimensional is the best offering available.

Following this commentary, please find an updated version of our Client Privacy Policy for your review.

We wish you all a healthy and happy holiday season!

John, Derek, Jon & Stacie

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