May 23, 2014

**Mid-Quarter Report***John Ferguson, President*

*You’ve got to be very careful if you don’t know where you are going, because you might not get there.*

-Yogi Berra

Evidently, a significant number of investors didn’t know where they were going after the market declines in 2008-09. They pulled out in meaningful numbers during the slide and stayed out during the following recovery. Now, according to the Wall Street Journal, these newly undaunted investors are tepidly coming back into the markets.

Perhaps they didn’t know where they were going because they didn’t have a plan. Morningstar, an independent investment research firm, has put a value on the benefit of a financial plan. They label this “Gamma” and add it to existing quantifiable “Alpha” and “Beta” of financial decision making.

Alpha reflects the excess return generated from the investment decisions of individuals and managers. We employ Dimensional’s engineered-indexing approach for our key holdings. Beta is a measure of risk and return which is driven by asset allocation. We utilize numerous asset classes to enhance your returns while maintaining a diversified portfolio designed to minimize risk.

Gamma is “designed to quantify the additional value that can be achieved by an individual investor from making more intelligent financial planning decisions.” The key here is to look at financial planning decisions that include tax –efficient decisions, liability minimization and, especially important for the retiree, a withdrawal strategy.

We have used these techniques for a number of years; we just didn’t have a label. The industry now calls this “gamma”. Morningstar estimates that a gamma efficient portfolio “has the same impact on expected utility as an annual return increase of 1.59%.” Their projections are based on models and subject to statistical error but we strongly continue to believe that having a financial plan benefits our clients, not only in return, but also in peace of mind.

Emerging Markets Breakdown

The second page reveals much about the holdings in the Dimensional Emerging Market Funds. All portfolios have some portion of their assets in emerging markets. Large cap is the biggest asset class with financial stocks the largest holdings and China the biggest country holding.

Emerging markets are leading the equity pack this year in returns while last year they were underperformers. Another reason to stick with an allocation plan and not be jumping in and out, as amateurs do, of last year’s best performers.

Have a wonderful summer. We will send you another commentary in July.