November 20th, 2014

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

*Never believe that a few caring people can’t change the world. For, indeed, that’s all who ever have.*

-Margaret Mead

A few weeks ago, the *Wall Street Journal* ran an article that carried this in bold headline in their monthly analysis section: **“’Darkest of Days’ for Active Funds”1**

“The bad times are back for actively managed U.S.-stock mutual funds.” The article quotes John Rekenthaler, vice-president of research at Morningstar (an independent research organization) with the following, “Active management has never been in worse repute.”

As the market has moved higher this year, investors, burned by the lack of performance in actively managed funds, pulled over $70 billion from those accounts. What investors are doing, according to the *Journal*, is moving their capital to exchange traded funds and index funds. We have been allocating a significant portion of our portfolios to *Dimensional Funds* for over a decade.

However, we don’t think of *Dimensional*as just an ordinary index family of funds. They describe their investment philosophy on their website as follows:

Unlike index funds that follow commercial benchmarks, Dimensional defines equity asset classes based on a security's market capitalization and price-to-book ratio and actively applies their own eligibility rules. To gain the purest representation possible they seek to exclude securities that do not exhibit the general characteristics of the defined asset class. They also seek to eliminate securities that lack sufficient liquidity for cost-effective trading.2

Even though Dimensional is approaching $400 billion of assets in their portfolios, they are still a small percent of the estimated $60 trillion world equity markets. Engineering equity portfolios around broadly-defined return sources generates opportunities for Dimensional traders to add value. Rather than replicate an index in mechanical fashion, they permit deviations from market cap weightings and allow for the integration of stocks among asset classes. This flexibility also allows them to reduce transaction costs caused by counterproductive trading. For example, for asset classes defined by size, a slightly higher hold or "buffer" range allows Dimensional to hold securities that a commercial index may be forced to sell, which reduces turnover and can increase returns.

While this may be the darkest of days for active funds it is a bright time for your Dimensional assets.

**Saving Improves Health?**

A recent American Association of Individual Investors article3 brought to my attention a fascinating study published by the Association for Psychological Science4. The study has found significant evidence suggesting that individuals who make the decision to begin or increase deferrals to a 401(k) plan correlate highly with positive care over their personal health! I certainly found it to be an interesting read and would encourage you to take a look as well.

W**hat is a Prudent Manner Asset Allocation?\***

Another interesting item crossed my desk the other day, this one from The Fund Raising and Non-Profit Report from Copilevitz and Canter, LLC5. The report details a recent decisions by the Massachusetts Supreme Judicial Court which found a trustee in breach of its fiduciary duty by failing to invest assets in a prudent manner. The funds were invested in fixed income (bonds) for more than fifty years.

“Depending on market conditions, the allocations to securities can be anywhere from 50% to 70% and for fixed income from 30% to 40% and for cash from 5% to 15%,” the report concluded.

This is in line with our allocation for the majority of our clients.

As always we strive to position our clients to have the best chance of success with their financial and other endeavors. We wish everyone a joyous and healthy Thanksgiving.

John, Derek, Christina, Jon, and Angela.

1 Jonathan Burton, “Investors Flee Active Stock Managers,” The Wall Street Journal, November 4, 2014.

2 Engineering. In Dimensional. Retrieved November 18, 2014, from http://us.dimensional.com/process/engineering.aspx

3 “Retirement Planning May Improve Your Health,” American Association of Individual Investors, August 2014.

4 Timothy Gubler & Lamar Pierce, Healthy, Wealthy, and Wise Retirement Planning Predicts Employee Health Improvements, 2014. Abstract. Washington University, Olin Business School.

5 Fund Raising and Non-Profit Report, Volume XXI, No. 10, Copilevitz & Canter, LLC, October 2014.

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\*Asset Allocation does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

***Please consider the investment objectives, risks, charges, and expenses carefully before investing in Mutual Funds. The prospectus, which contains this and other information about the investment company, can be obtained directly from the Fund Company or your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.***