

Money Manager Newsletter

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Investment Consulting Group, Inc.

"Behavioral Economics/Behavioral Finance Is, Essentially, The Study Of Why Seemingly "Rational" Investors Frequently Make Seemingly "Irrational" Decisions With Their Money"

Carl Richards CFP—Dynasty Financial Partners

U.S. companies need admiration (congratulations) on how they managed their companies cash flow during the financial crisis. By cutting dividends and improving their financials to survive compared to the rest of the world who is 5 years behind.

There is no reason to apologize for good margins. Of the top 10 seaports in the world, 6 are in China, and there are none in the USA. Of the top 10 airports in the world, 4 are in China, and one is in North America (Vancouver). "Sarbanes-Oxley Act sponsored by Frank/Dodd was the largest deterrent in the U. S. Economy."

Carlos Gutierrez—Former Secretary of Commerce

Japan's main interest rates won't reach 0.5% for at least 30 years, and even U.S. and UK rates are set to remain low for years.

Scott Sumner PhD—Mercatus Center and Bentley University

Weak 7 Year Economic Recovery...Why?

Wages are rising and unemployment is low at 4.7%. Total employment participation is still low at 62.6%. The economy continues to grow at a slow 2.1% annual rate.

Core inflation which excludes oil and food has been moving up towards the Fed's annual rate. This means low prices which is good for consumers but low inflation reflects weak wages. Economists say the labor market won't be fully healed until we see paychecks growing substantially.

Despite unusually low mortgage rates, the demand for single family homes is weak. Builders complain about soaring regulatory costs (government stifles growth) and a shortage of affordable lots resulting in more apartments and larger homes with bigger profits.

The Global economy is in a funk and faces big risk. World economy is stuck in a trap of slow investment, sluggish trade and low productivity. There is lingering uncertainty over China. Problems cyclical in nature such as excess commodity supplies may pass with time, but structural challenges including aging population, declining labor force, and issues involving infrastructure and education, all of which, unless dealt with will keep U.S. and global economies from reaching full potential. Tribune News Service—Dispatch and Rock Island Argus

So far, as the last seven years show, (a) central banks haven't been able to generate the growth they hoped for and (b) the impact of each successive jolt of stimulus seems to have been less powerful.

Rather than believing central banks can make economies more productive, it's my bottom line that there's a naturally occurring growth rate for each economy, and that rate dictates the long-term output, not central bankers' actions.

What have the following places had in common in recent years: China, Ireland, Spain and Arizona? The answer's simple: Large numbers of empty new homes. In the last decade-plus, governments and central banks chose to encourage economic growth in these jurisdictions by making financing readily available for construction. This can do wonders for an economy.

06/30/2016	Growth Median P/E	Value Median P/E	Historical Growth Avg.	Historical Value Avg.
Royal Blues	25.7x	13.4x	24.7x	11.4x
Large Cap	21.9x	12.0x	19.8x	10.8x
Mid Cap	24.9x	12.7x	23.3x	11.9x
Sm Cap	27.8x	13.4x	27.3x	12.0x

Taxes are the main instrument for politicians to put class resentment to work. Many eventually resort to an old saw: "We're not out to soak the rich. We just want them to pay their fair share." I discussed this subject at length in "It's All Very Taxing" (November 2011). In my view, however, (a) there's no way to determine what the fair share is, (b) there are only the opinions of self-styled experts on this subject, and (c) "fair share" always seems to come down to "more than they've been paying." While not everyone would change their residence to reduce their taxes, some will. Remember that seven of the 50 states do not tax their residents' incomes. Thus the bottom line on this, I think the good news in terms of fiscal responsibility, is that states have no choice but to think of taxpayers as mobile. If you raise the top tax rate by 10%, you won't collect 10% more taxes from them.

Here's a shocker: you can set prices for goods, but you can't make people produce them. That sounds a lot like economic reality.

Not long ago, Venezuela, "a seemingly modern, seemingly democratic nation, was wealthy and a good place to live. Sitting atop the world's largest reserves of oil at the tail end of a frenzied oil boom, the government led first by (Hugo) Chavez and, since 2013, by (Nicolas) Maduro, received over a trillion dollars in oil revenues over the last 17 years. Chavez, a self-described champion of the poor who vowed to distribute the country's wealth among the masses, and instead steered the nation toward the catastrophe the world is witnessing under his handpicked successor Maduro. In the last two years Venezuela has experienced the kind of implosion that hardly ever occurs in the middle income country like it outside of war. Mortality rates are skyrocketing; one public service after another is collapsing; triple-digit inflation has left more than 70 percent of the population in poverty; an unmanageable crime wave keeps people locked indoors at night; shoppers have to stand in line for hours to buy food; babies die in large numbers for lack of simple, inexpensive medicines and equipment in hospitals, as do the elderly and those suffering from chronic illnesses. This is the fate that has befallen a once-wealthy and once-modern nation operating under central economic control. Shall we give it a try?

The bottom line on economic reality is that, in the short run, governments theoretically have the ability to:

- A.) Accelerate economic activity,
- B.) Make life better for one group of citizens at the expense of another,
- C.) Encourage one form of activity versus others.

One could view these things as potentially helpful policy tools. They are designed to accomplish results that wouldn't occur if the market were left free.

In contrast to the above list of things governments can do to affect economies, there's a significant list of things they can't do.

- A.) They can't create much net growth, wealth or prosperity through stimulus alone,
- B.) They can't make everyone better off simultaneously,
- C.) There aren't many actions they can take that won't have repercussions for people other than the ones they're intending to benefit, and second order consequences for everyone, and
- D.) They can't make economies (or the people in them) perform as desired.

Fundamental improvements, intelligent changes in the investment incentives, the tax system or infrastructure, for example, can increase the slope of the growth curve and provide substantial net long-term benefits for a society (although not necessarily for the every individual member). Short-term fixes simply cannot create wealth out of thin air. Winston Churchill said, "We contend that for a nation to try to tax (or stimulate or devalue) itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle." Howard Marks—Oaktree Capital Management

DJ IA 17929.99 Nasdaq 4842.67 S & P 500 2098.86 Russell 2000 1151.92 MSCI EAFE 6121.75 Crude Oil 48.33 Euro 0.9003 10 yr Treas. 1.49 Fed.Fund Rate 0.25-0.5 Prime Rate 3.50

According to the Pew Research Center, 32.1 percent of Americans aged 18-34 live in their parents' home, which is higher than the 31.6 percent in that age group who live with a spouse or are cohabiting. It's the first time in more than a century that more young Americans live with their parents than a partner. [NPR](#)

\$504 Billion — Total cash and non-cash equivalent holdings of Apple, Microsoft, Cisco Systems Oracle, and Alphabet (the parent company of Google), combined. U.S. non-financial companies have \$1.7 trillion in cash, meaning that five companies control 30 percent of the dough. [USA Today](#)

Stay cheap. Research keeps piling up to show that one of the best predictors for the success of a mutual fund is if it has low fees. Whether the fund specializes in stocks, bonds or other investments, having low costs tends to lead to higher future returns. It's found that the lowest-cost group had a higher rate of success than the second-cheapest, which had a higher rate of success than the third-cheapest, and so on. The very first thing to look at is its expense ratio. It is a great place to start. It's such a strong predictor of future success. Our data show that it works in all kinds of funds and in all kinds of markets. [Stan Choe—Associated Press](#)

Many Asian economies have experienced faster rates of per capita GDP growth than other emerging market economies. This dramatic economic "lift-off" has been driven by three key factors: high savings rates, total factor productivity and structural economic changes. While each is significant, it is the combination of these factors, together with other supporting elements, that account for the region's more rapid relative growth. Economic growth does not necessarily imply outperformance. But long-term investors should align themselves with broad themes that transcend short-term market volatility. [Matthews Asia](#)

The Irish Economy grew 26% in 2015, which even the nation's highest economists consider laughable. The absurdly high growth rate is likely the result of overseas companies dumping a load of assets in Ireland due to their tax structure of 12.5%, which encourages corporations to base their assets in the country. [Bloomberg](#)

Is the Market Better?

If we go back 71 years to 1945, the obvious answer is the market does better under a Democratic president. During this period the market gained about 50% more under a Democratic president than a Republican president. Though to some, this is heretical and offensive. The average S&P gain under a Republican presidential term is 6.7%. The average gain under a Democratic president has been 9.77%. [Malcolm Berko](#)

I agree with Bernie Sanders. The economy is rigged. In fact, it's what my father taught me about life. But, my dad's advice to me time and time again was that the world was rigged and the only way I could make it was to work harder than the people who were in charge of the rigging. A few years ago I was walking through campus when a woman holding flyers stepped in front of me. She asked if I thought the government should pay off student's debts. I don't think the government should, but then again I never had student loans. No, it wasn't because I was from a wealthy family. I never had student loans because I worked every semester I was in college, and during some summers, I worked two jobs. I did this because I thought the world was rigged against me. I didn't have the life like many of the college students I've hired in the last few years. They study what they love—philosophy, political science, art, regardless of whether or not they have good job prospects. They travel. Mostly they seem to go to Vietnam or Cambodia. They eat out a lot more than I did at their age. They know all the trendy restaurants and hot bars. I used to take my vacation days from my "real" job and go door to door, selling video listings to small businesses. I lost a lot of my own money, as my disposable income never went to travel or luxury goods of any kind. It went to business ideas. I kept at it because I believe, much like Bernie, that the world was rigged against me.

When I finally had a company that was successful, the experience of running it was more stressful than you could ever imagine. There was a board meeting where, I took so many rapid fire shots from board members that one of my executives told me afterwards that he would never want to be a CEO and go through something like that. Along the way, I learned a lot. I created over 100 jobs. In the end I helped build something useful for thousands of companies around the world. But when I hear Bernie speak, I feel like I'm the problem with America. I'm one of those millionaires he mentions who should pay more taxes. I'm the bad guy. All the things I sacrificed don't matter. The additional stress I was under doesn't matter. The risks I took don't matter. According to Bernie, the world needs fewer people like me, and more people like the smart college student who majors in something useless, travels the world, and then graduates with \$100,000 in debt that people like me should pay off via higher taxes. Yes, the economy is rigged. Any economic structure will favor some at the expense of others. But the wonderful thing about America is that if you are willing to make the right sacrifices, you can achieve whatever you want. Unfortunately, we've come to believe that achievement should be easy. Changing that attitude is the first step towards making yourself more successful.

[Rob May—Co-founder and CEO of Talla \(Fortune article\)](#)

"You really have a very long career path. Find out what you like and finish what you begin." Give things a chance and find your passion. "A chance isn't six months. A chance is years. Then if it's not what you want to do, be bold enough to make a change." [Paul VanDuyne — KJWW](#)

Treasury Market Yields	06/30/2016	12/31/2015	12/31/2014
2 Year	0.58%	1.06%	0.67%
5 Year	1.01%	1.76%	1.65%
10 Year	1.49%	2.27%	2.17%
30 Year	2.30%	3.01%	2.75%
SP 500	2.17%	2.14%	1.92%
Commodities			
Oil (\$/bal)	\$48.33	\$37.04	\$53.27
Gold (\$/oz.)	\$1318.40	\$1060.30	\$1183.90
CRB Index	\$192.57	\$176.27	\$229.96

