DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
17685.09	4869.85	2059.74	1114.03	6195.51	38.34	0.8787	1.78	0.25-0.5	3.50

Money Manager Newsletter

March 31, 2016

Investment Consulting Group, Inc.

"If Banking Or Institutions Are Protected By The Taxpaper And They Are Given Free Reign to Speculate, I May Not Live Long Enough To See The Crisis, But My Soul Is Going To Come Back And Haunt You"
Paul Volcker—Fed Chair 1979-1987

The stock market is not as predictable as the weather, though like the weather, it has its rhythms. As certain as winter follows fall, markets will decline. And as certain as spring follows winter, the markets will rise again. Since 1871, the market has fallen 10 percent about six times every 11 years. And like the seasons, you can depend on that. Still many investors become nervous Nellies and seriously want to liquidate. But markets come back every time, and every time the market comes back, it comes back higher. During that 145 years, the market has also fallen about 20 percent about every 48 months. You can depend on that, too. While that's as normal as the sunshine and the rain it still gives investors a serious cases of shivering fits. About once every decade the market declines over 30 percent and investors who can't handle the heat have to leave the kitchen. But the market comes back higher. It has done so every time. Stock market data going back to 1871 that covered a plethora of financial crises, national scandals, horrible recessions and two world wars. There's an 80 percent degree of probability that every five years after 1871 you'd be worth more money because your portfolio will have a higher value. The S&P 500, every five years since 1871, adjusted for dividends and inflation, rose an average of 47 percent. But when the S&P falls 20 percent, the 5 year returns averaged 61 percent. After a drop of 30 percent, the average return over the following 5 years was 78 percent. But after a 40 percent drop, the returns 5 years hence average 102 percent. And those numbers aren't chopped liver. Market drops never feel temporary, but they always are. Stay the course. Malcolm Berko

I remember the first law of economists: For every economist, there's an equal and opposite economist. The second law of economists: They're both wrong. I don't like economists; I never did. Along with members of congress, they are among the useless humanoids on earth. The U.S. economy is the cleanest diaper in the pile of the world's dirty laundry. According to the American Society of Civil Engineers, the average bridge in America is 42 years old, and the 151,238 of them are deficient. The average dam is 52 years old, and 14,076 of them are rated "high hazard." The ASCE estimates that 42 percent of American's urban highways remain congested and cost the economy over $101 billion yearly. Every member of Congress has this ASCE report. Still, Congress missed an opportunity to employ 2 million Americans in shovel ready jobs. Since 2008, the cost to update and modernize our infrastructure has increased by 50 percent. Imagine the ancillary jobs that would be created; 2 million more Americans would have fresh cash in their pockets, and their demand for more goods and services, which would require hiring more Americans to meet that demand. Last week, I saw a septic truck with the following message: "Caution. This truck is full of politician's promises."
Malcolm Berko

The easiest way to teach children the value of money is to borrow some from them.

Many people get into debt trying to keep up with those who already are there.
Liguorian.Org—January 2016

03/31/2016	Growth Median P/E	Value Median P/E	Historical Growth Avg.	Historical Value Avg.
Royal Blues	26.1x	12.5x	24.7x	11.3x
Large Cap	22.0x	12.0x	19.8x	10.8x
Mid Cap	23.3x	13.1x	23.3x	11.9x
Sm Cap	25.4x	13.4x	27.3x	12.0x

If you have an emerging markets fund in your portfolio, you probably have a few questions. The rout in emerging markets raises the question: Are they worth the pain? The good times don't always outweigh the bad. But if you like to buy cheap, right now might be a good time to look at emerging markets. Most people own emerging markets stocks because those economies tend to grow faster than those of industrialized nations. U.S. stocks fared better as a developed market in the 20th century than it did in the 19th century, when it was an emerging market. U.S. stocks gained an average 6.51% in the 19th century, versus 9.98% in the 20th century. While the 20th century had its shares of war and other unfortunate events, World War II and the Great Depression come to mind, so did the 19th century. The 1836 panic and depression kept economic growth so sluggish that the next decade was nicknamed "the hungry 40s." Civil War was devastating. Nevertheless, emerging markets are dead cheap now, and if your clients are willing to forgive you for the past 12 months, this is a good time to go back in, says Rob Arnott. Some of the cheapest emerging markets are cheap because of the plummeting price of oil. "Could it get cheaper? Sure. Do I want to pick the bottom? No," he says.
John Waggoner — On Investments

Facebook, employs less than 13,000 people: U.S. Steel, which is a third smaller by revenue, employs two and a half times as many people. Much of Apple's economic impact is in China. And Uber famously has thousands of drivers who don't count as employees. But there is also evidence that the economy has become more hostile to new companies. Startups are failing at a higher rate than in the past, while older, larger businesses are increasingly dominating nearly every sector of the economy. Economists on both sides of the political spectrum have found evidence of increased "rent-seeking," efforts by companies to use government regulation or other policies to protect themselves from competition. "There's a whole range of developments on the regulatory side that have made life harder and more challenging for newer and young businesses," said Steven Davis, a University of Chicago economist who has studied the decline in entrepreneurship. Ben Casselman — FiveThirtyEight

Uncertainty and conflicting data do not eliminate opportunity. The U.S. economy is growing, at least grudgingly. Employment shows modest strength; rising wages should follow. Yes, corporate debt has built up at all capitalization levels. A rise in interest rates and consumer stress will pressure corporate earnings. Over-leveraged and highly priced sectors and companies think utilities or consumer staples don't disappear from indexes favored under passive equity investment strategies. When rates trend higher, and when the whole world is playing or has played the stimulus game, valuation, must matter. Debt management and free cash flow have always been integral to our analyses.
Gene Natali, Chief Executive Officer — C.S. McKee

CNN Money warns corporate defaults could increase as the average US company debt rating has fallen to a 15-year low. It's not clear whether such comparisons make sense as the ratings agencies have been much quicker to downgrade debt. Still, it is noteworthy that since 2012, S&P has assigned a single-B rating, just one notch above the triple-c highly-likely-to-default rating, to 75% of companies accessing the debt market for the first time.

John Williams, the uber-hawkish San Francisco Fed President, said the global economy, especially Brazil and China, is having a significant impact on measures used by Fed policy makers to determine where to set rates. The US economy is fine, he said, it's the global economy and markets that are slowing the pace of tightening.

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Investment Consulting Industry

Statistics is a tricky subject and many are indeed tricked by it. The significance vanishes when one looks behind the curtain and combs databases looking for excellent performance. As an example, there is roughly a 1 in 1,000 chance of flipping 10 heads in a row, but if I examine 1,000 coin flippers, odds are pretty good that I'll find a perfect record. When the excellent coin flipper (or fund manager in the case of an investment example) is presented to the client, the client is usually unfamiliar with the process used to arrive at the nomination and often the track record looks more impressive than it should. Active management has its benefits. The research done to support active management helps allocate assets efficiently. The paradox is that the entire economy benefits from efficient markets, but those who pay for active management on average do not enjoy higher returns. Indexers get a free ride on active management. My objection to active management is only that its record as a whole is not fully and accurately portrayed by those who know or should know the arithmetic. I think the industry as a whole also is reluctant to tell clients about how low expected returns might be over the next seven to 10 years. Clients are better off with their advisors than without because advisors perform better than the individuals would on their own. Rex Macy, CEO — Red Tortoise, LLC

Price controls never work. Interest is the price a borrower pays a lender for a loan. Believed that by setting this price artificially low businesses would borrow more, which, in turn, would rev up the economy. This is as absurd as the Fed decreeing that all prices be cut in order to stimulate more consumer spending. Sure, shelves might empty, but they would stay empty. As used to be sardonically said in the Soviet Union, "The health care is free, but you can't get any." Something similar happened here for small businesses. Large companies borrowed heavily because the money was so cheap. However, capital expenditures by businesses stagnated because of economic uncertainties, exacerbated by the Fed's Soviet-style behavior. Instead, much of the money went to financial engineering via stock buybacks or to finance acquisitions. Loans to smaller businesses suffered. In the past five years credit to Big Government has surged 37%; to corporations, 32%, and to small businesses and households, a mere 6%. You'd think that after so many years of failure the central banks would realize the obvious: They can't manage their economies any more than the Soviets could. But central bankers, like all bureaucrats, love power, even if they wield it destructively.
Steve Forbes — Forbes

Treasury Market Yields	03/31/2016	12/31/2015	12/31/2014
2 Year	0.73%	1.06%	0.67%
5 Year	1.21%	1.76%	1.65%
10 Year	1.78%	2.27%	2.17%
30 Year	2.61%	3.01%	2.75%
SP 500	2.23%	2.14%	1.92%
Commodities			
Oil ($bal)	$38.34	$37.04	$53.27
Gold ($/oz.)	$1234.20	$1060.30	$1183.90
CRB Index	$170.52	$176.27	$229.96

It's an election year, and candidates can't stop speaking about our country's problems (which, of course, only they can solve). As a result of this negative drumbeat, many Americans now believe that their children will not live as well as they themselves do. That view is dead wrong: The Babies being born in America today are the luckiest crop in history. American GDP per capita is now about $56,000. In real terms, is a staggering six times the amount in 1930, the year I was born, a leap far beyond the wildest dreams of my parents or their contemporaries. U.S. Citizens are not intrinsically more intelligent today, nor do they work harder than did Americans in 1930. Rather, they work far more efficiently and thereby produce far more. This all-powerful trend is certain to continue: America's economic magic remains alive and well. Some commentators bemoan our current 2% per year growth in real GDP and , yes, we would all like to see a higher rate. But let's do some simple math using the much-lamented 2% figure. That rate, we will see, delivers astounding gains.

American's population is growing about .8% per year (.5% from births minus deaths and .3% from net migration). Thus 2% of overall growth produces about 1.2% of per capita growth. That may not sound impressive. But in a single generation of, say, 25 years, that rate of growth leads to a gain of 34.4% in real GDP per capita. (Compounding's effects produce the excess over the percentage that would result by simply multiplying 25 x 1.2%.) In turn, that 34.4% gain will produce a staggering $19,000 increase in real GDP per capita for the next generation. Were that to be distributed equally, the gain would be $76,000 annually for a family of four. Today's politicians need not shed tears for tomorrow's children. All families in my upper middle-class neighborhood regularly enjoy a living standard better than that achieved by John D. Rockefeller Sr. at the time of my birth. His unparalleled fortune couldn't buy what we now take for granted, whether the field is, to name just a few, transportation, entertainment, communication or medical services. Rockefeller certainly had power and fame; he could not, however, live as well as my neighbors now do. Though the pie to be shared by the next generation will be far larger than today's , how it will be divided will remain fiercely contentious. Just as is now the case, there will be struggles for the increased output of goods and services between those people in their productive years and retirees, between the healthy and the infirm, between the inheritors and the Horatio Algers, between investors and workers and, in particular, between those with talents that are valued highly by the marketplace and the equally decent hard-working Americans who lack the skills the market prizes. Clashes of that sort have forever been with us and will forever continue. Congress will be the battlefield; money and votes will be the weapons.

The good news, however, is that even members of the "losing" sides will almost certainly enjoy, as they should, far more goods and services in the future than they have in the past. The quality of their increased bounty will also dramatically improve. Nothing rivals the market system in producing what people want nor, even more so, in delivering what people don't yet know they want. My parents, when young, could not envision a television set, nor did I, in my 50s, think I needed a personal computer. Both products, once people saw what they could do, quickly revolutionized their lives. For 240 years it's been a terrible mistake to bet against America, and now is no time to start.
Warren Buffet