

Money Manager Newsletter

March 31, 2017

Investment Consulting Group, Inc.

"It Doesn't Matter What You Do, As Long As You Do It Well. It Does Matter What You Do. You Should Focus Relentlessly On Something You're Good At Doing, But Before That You Must Think Hard About Whether It Will Be Valuable In The Future"

Peter Thiel & Blake Masters

Wise economists and knowledgeable observers feel there's a good possibility the Dow will reach 30,000 in the coming decade. Dan Saul Knight, a math genius from IT&T College, believes a 30,000 Dow soon will be fait accompli. 30 Stocks in the SPDR Dow Jones Industrial Average increased by an average of just 6 percent annually for seven years, the Dow would top the charts at 30,000. The average dividend yield on the 30 stocks that make up the Dow in 2016 was 2.5 percent, so if you invested \$10,000 in the DIA last year, you'd have received \$250 in dividend income. Now, if the stocks in the DIA were to increase in value by a measly 3.5 percent annually, your total return would be (2.5 plus 3.5) 6 percent. And according to Dan, a 6 percent return, with all dividends reinvested, would grow your \$10,000 DIA investment to \$15,000 in seven years and the Dow Jones industrial average from 20,000 to 30,000. [Malcom Berko – Argus 2/15/2017](#)

"Congress wants to replace the dollar bill with a coin. They've already done it: It's called a nickel." Jay Leno

Some analyst computed the "real" unemployment number by adding into the base number those people who are working part time but would like a full time job plus those not working who have given up looking (discouraged workers). This number, the "U-6" unemployment rate, came out at 9.4% in December. Not to just pick on the Fed and economists, but the media can make a case either way on many of these issues. So what is an investor to do? What statistics and data do you believe? It is best not to get bogged down too much in statistics or you can end up with paralysis and be too fearful to make any investment decisions. Listen to the Fed and use some common sense. Remember that the "trend is your friend." Whether you like Trump or not, do not base your investment decisions on those feelings; again, the trend is your friend and you can find plenty of statistics or data to make a case for participating in this stock market. The Fed seems to think so too. Economists and analysts have to be objective and think they can't afford to be wrong. Their jobs depend on them being right (sometimes). The media can write anything they want and can even be wrong without suffering any consequences. The lesson is to observe and think for yourself. [Dana Investment Advisors, Inc. February 21, 2017](#)

Be polite to all, but intimate with few." Thomas Jefferson

Only 26% of the 3,105 wealthy individuals surveyed in a 2016 study had a complete estate-planning strategy-including an estate plan, a will, and a detailed philanthropic mission-in place for transferring wealth to the next generation. Only 54% of those surveyed had even prepared a will, and most respondents with wills hadn't updated them. In other words, \$1.5 trillion of the \$3.2 trillion to be passed down to the next generation in the U.S. is without direction. We can't say it enough: Start planning early, however imperfectly. Those who have inherited wealth themselves do the best job preparing their heirs, in all likelihood because they were frustrated by how the inheritance process went for them. [Sonia Talati – Penta; Barron's February 13, 2017](#)

"As long as inflation persists or threatens, all sensible liberals should be fiscal conservatives. And conservatives even more so." John Kenneth Galbraith

03/31/2017	Growth Median P/E	Value Median P/E	Historical Growth Avg.	Historical Value Avg.
Royal Blues	27.5x	14.5x	24.7x	11.4x
Large Cap	21.9x	13.1x	19.9x	10.8x
Mid Cap	24.2x	15.0x	23.4x	12.0x
Sm Cap	28.8x	16.0x	27.5x	12.0x

Students learn corporate finance at business schools. They are taught that the whole secret is diversification. But the rule is exactly the opposite. The 'know-nothing' investor should practice diversification, but it is crazy if you are an expert. The goal of investment is to find situations where it is safe not to diversify. If you only put 20% into the opportunity of a lifetime, you are not being rational. Very seldom do we get to buy as much of any good idea as we would like to. [Charlie Munger; Berkshire Hathaway](#)

"The goal is not to be contrarian. The goal is to be research driven and be comfortable being a contrarian."

Michael Hasenstab, CIO – Templeton Global Macro

America's newly installed executive branch intends to rebuild a working class that forms the bedrock for economic and social progress. Reduced regulation and corporate tax cuts will lower hurdles and raise earnings. Fiscal stimulus will further advance both. We look forward to these initiatives, realize markets are not cheap, and understand that "a bird in the hand is worth two in the bush." Irrespective of whether purchasing bonds or stocks, Fairholme is constantly evaluating how to optimize investment returns and minimize chances of permanent loss. After all, our job is to create sustainable wealth.

[Bruce R. Berkowitz, CIO – Fairholme Capital Management, L.L.C.](#)

"Take a chance and you may lose. Take not a chance and you have lost already." Soren Kierkegaard

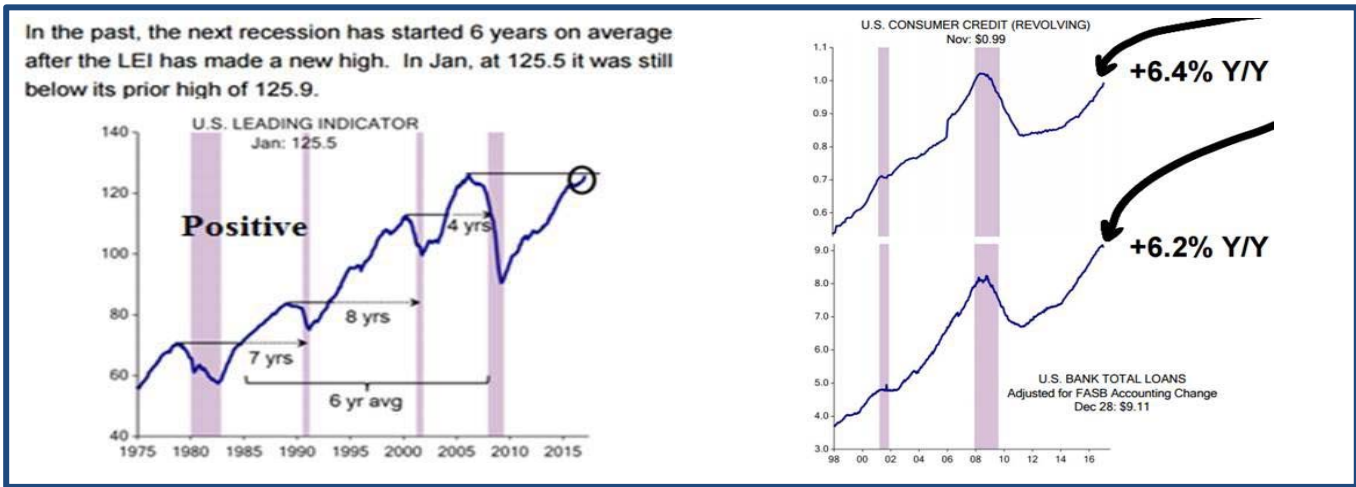
Today the fundamental impact of the Internet is to make distribution itself a cheap commodity, or in the case of digital content, completely free. And that, by extension, is why I have long argued that the Internet Revolution is as momentous as the Industrial Revolution: it is transforming how and where economic value is generated, and thus where power resides. In this brave new world, power comes not from production, not from distribution, but from controlling consumption: all markets will be demand-driven; the extend to which they already are is a function of how digitized they have become. The companies that thrive in this new world are those that build new businesses uniquely enabled by the Internet; those that struggle are those with businesses built on old limitations. [James Allworth](#)

Solar Cells are doubling every 18 months. In 16 years we will be able to utilize solar 100%.

Indexed vs Active

- 1.) Over long periods of time, passive investing will always beat active investing—theory.
- 2.) Indexing works well in up markets, but active managers will perform better in down markets.
- 3.) As you go from large to small indexes the rewards of active management increases.
- 4.) As global markets become increasing efficient in the future, the probability that active managers will outperform will continue to decline.
- 5.) Traditional capitalization-weighted indexes cause investors to "buy into bubbles" which can harm long-term performance.
- 6.) As more investors use indexes, the potential returns of active management grow.
- 7.) Index funds can create greater market instability.
- 8.) Although investor cash flows assets currently favor passive investing, the trend will reverse itself once interest rates rise and we enter a normalized market environment.

The graphs both show that the economic backdrop was improving long before the election took place. The breadth of that improvement, too, provides comfort to us. The second graph shows both consumers and businesses (with an increase in loans) are embracing a better economy. Whether all the proposals from the Trump Administration are enacted and when is an unknown. However, when we take a step back, we see a U.S. Economy that continues to grow and strengthen. From that we are of the opinion that the latest run in the market is not solely a function of the election surprise, but also the recognition that the U.S. economy is strong.



Ken Crawford, Senior Portfolio Manager—Argent Capital Management LLC

We like the NSA—the only branch of the government that actually listens to the people.

In economics, disbelief in secrets leads to faith in efficient markets. But the existence of financial bubbles shows that markets can have extraordinary inefficiencies. (And the more people believe in efficiency, the bigger the bubbles get.) [Peter Thiel & Blake Masters](#)

In 3-6 years more than 5 billion people will have access to the internet and there will be 15 billion internet connected devices by 2030.

We remain optimistic about 2017 and 2018 growth despite setbacks to Trump's legislative agenda. Bloomberg's Kathleen Hays asked chair Yellen why FOMC participants decided to hike in March when the Fed signaled wait-and-see policy in February. Yellen responded: "So GDP is a pretty noisy indicator. I would describe our economy as one that has been growing around 2% per year." Yellen is not alone. Most would agree to that 2% number, but that didn't answer Hays question. If the Fed was content to tighten "once a year" pace, why is a once a quarter pace appropriate now?

We expect only modest inflation rise in the U.S. over the next two years. The Fed will keep inflation in check, not only because higher rates in the U.S. will limit demand from accelerating too much, but because higher U.S. rates will pull rates up in much of the rest of the world, keeping prices in line globally. A faster tightening pace and steady growth in the Fed's forecast suggest the FOMC has set a 2% growth "SPEED LIMIT". Faster tightening is necessary to prevent accelerating growth. [Chris Low; FTN](#)

50 Industries will be destroyed by autonomous cars — 3 million truck drivers will lose jobs in the next 5-10 years.

- 1.) Anything that is in the world when you're born is normal and ordinary.
 - 2.) Anything that is invented between your 15th and 35 years of age is new and exciting and revolutionary. You will probably get a career in it.
 - 3.) Anything invented after you're 35 years of age is against the natural order.
- [Douglas Adams — Author "The Hitchhikers Guide to the Galaxy"](#)

Treasury Market Yields	03/31/2017	12/31/2016	12/31/2015
2 Year	1.27%	1.20%	1.06%
5 Year	1.93%	1.93%	1.76%
10 Year	2.40%	2.45%	2.27%
30 Year	3.02%	3.06%	3.01%
SP 500	1.97%	2.07%	2.14%
Commodities			
Oil (\$/bal)	\$50.60	\$37.04	\$53.27
Gold (\$/oz.)	\$1247.30	\$1060.30	\$1183.90
CRB Index	\$185.88	\$176.27	\$229.96

