DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
21349.63	6140.42	2423.41	1415.36	7396.99	46.04	0.8752	2.31	1.00-1.25	4.25

Money Manager Newsletter

June 30, 2017

Investment Consulting Group, Inc.

"The Loser (Market) Is The Trend Chasing, Comfort Seeking Investor. The Market Doesn't Reward Comfort, It Rewards Discomfort"
Rob Arnott

Department of Labor Fiduciary Rule—June 9, 2017
It is sad to think the government must establish a law for financial advisors to act in the best interest of their clients, and politics needed to compromise.
Donald Stanforth

Fiduciary = Trust (look it up) If someone takes 10 seconds to look up the word fiduciary they'll see words like trust and relationship. They'll see phrases like putting clients' interest first and avoiding conflicts of interest. Now, if that is what the word fiduciary means, tell how in the world you could possible make an argument against it.

If the next several years does unleash the "accrued" demand force of Millennials, then housing markets, income and savings calculations, population growth, job expansion and other economic fundamentals have greater positive potential than is currently seen in the statistics. From where we stand, that force is quite positive, indeed.
M. Randolph Westlund, CFA

"When I have to depend upon hope in a trade, I get out of it."
Jesse Livermore (Early 20th century stock trader and speculator, How to Trade in Stocks, 1877-1940)

Population Growth By Age Source: U.S. Census Bureau			
	Number of People, in Millions		
Age Groups	2010	2020	2030
65 and Older	40.5	54.6	71.6
40 - 64 years old	102.7	104.4	106.2
20 - 39 years old	83.0	88.9	92.9
<20 years old	83.2	89.0	94.9
Total	309.3	336.8	365.7

My book grew out of a series of letters to my daughter concerning various things, mostly about money and investing, she was not yet quite ready to hear. Since money is the single most powerful tool we have for navigating this complex world we've created, understanding it is critical.
"But Dad," "I know money is important. I just don't want to spend my life thinking about it." This was eye-opening. I love this stuff. But most people have better things to do with their precious time. Bridges to build, diseases to cure, treaties to negotiate, mountains to climb, technologies to create, children to teach, businesses to run.
Unfortunately, neglect of things financial leaves you open to the charlatans of the financial world. The people who make investing endlessly complex, because if it can be made complex it becomes more profitable for them, more expensive for us, and we are forced into their waiting arms.
Here's an important truth: Complex investments exist only to profit those who create and sell them. Not only are they more costly to the investor, they are less effective.
JL Collins—The Simple Path to Wealth

"People's spending habits depend more on how wealthy they feel than with the actual amount of their current income."
A.C. Pigou (English economist, The Theory of Unemployment, 1877-1959)

06/30/2017	Growth Median P/E	Historical Growth Avg.	Value Median P/E	Historical Value Avg.
Royal Blues	29.9x	24.7x	14.8x	11.5x
Large Cap	22.5x	19.9x	13.0x	10.8x
Mid Cap	25.5x	23.5x	14.3x	12.0x
Sm Cap	30.4x	27.5x	15.2x	12.0x

"The Labor Market Has Continued To Strengthen," observed Fed Chair Janet Yellen's Federal Open Market Committee in its formal statement. "Job gains have moderated, but have been solid, on average, since the beginning of the year, and the unemployment rate has declined." Indeed, at 4.3% in May, the unemployment rate has fallen to a low not seen in 16 years. The committee expects price inflation to run noticeably higher; the new range still reflects the unprecedented policy of maintaining a negative real interest rate, in which the interest rate minus expected inflation equals a minus.
Imagine that we've gone back in time, to 10 years ago, just prior to the Great Recession of 2008-09, and we've asked a group of seasoned Fed watchers to guess the FOMC's fed-funds target, based on today's numbers for the jobless rate and the expected inflation rate. Would even one of our hypothetical panelists come close to guessing an interest-rate target as low as 1%-1.25%? Probably not.
There are, however, critics who believe that the reported 4.3% rate of joblessness exaggerates the tightness of the labor market. So let's imagine that the recent decline in joblessness cited by the FOMC hasn't occurred, and that the unemployment rate is 5%, its level in April of last year. Even so, prior to the Great Recession, there is not a single case in which 5% unemployment was accompanied by a negative fed-funds rate. In the actual world of markets, no one in his or her right mind lends money at an interest rate below the rate of expected price inflation. That only happens in the ersatz world imposed by the central bank. Gene Epstein—Barron's

There seem to be two parallel universes—one described by theory, the other by reality. Most of us occupy the latter; while the former is province of academics and policy makers.
In the theoretical world, low unemployment threatens to unleash a torrent of inflation, which needs to be staved off by tighter monetary policies. Back in the real world, disruption, innovation, and competition relentlessly drive down prices while wage growth is hard to come by. Reality bit back on the theoreticians when Amazon.com (ticker: AMZN) announced plans to acquire Whole Foods Market (WFM) for $13.7 billion, the biggest acquisition ever for what once was an online seller of books, if your memory extends back that far. The stock market clearly sees Amazon's latest foray as having implications beyond groceries.
These are things that don't go into the models of economists who guide policy at the Federal Reserve and other central banks. The models are built on historical data and assumes the future will be similar to the past. In other words, the creative destruction that characterizes free-market economies doesn't happen. Fed Chair Janet Yellen last week dismissed the sharp slowdown inflation resulting from the unlimited data plans—effectively, price cuts– announced recently by the major mobile phone carriers. The Fed's expectation that growth will pick up is shared by the White House.
Randall W. Forsyth—Barron's

Risk Tolerance and Behavioral Finance
The way investors think and feel affects their investment behaviors. Some investor behaviors are unconsciously influenced by past experiences and personal beliefs to the extent that even intelligent investors may deviate from logic and reason. These influences, or behavioral biases, can affect the way risk is perceived. Emotional biases are based on feelings rather than facts. Emotions can overpower our thinking during times of stress. All of us likely have made irrational decisions during our lives. Emotional biases include loss aversion, overconfidence, self-control, status quo, endowment, regret aversion, and affinity.
Donald Rumsfeld, U.S. secretary of defense under President George W. Bush, famously described known and unknown risk: "There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we do not know. But there are also unknown unknowns. There are things we don't know we don't know."
How much known risk and how much unknown risk can the client handle? Known risk is what we might call "normal risk" - risk we can comprehend easily and quantify using historical data from observations of financial markets. What about unknown "abnormal" risk, the kind that occurs once every 10 or 20 years and falls outside expectations? Although severe bear markets and crashes occur from time to time, 2008-2009 can be categorized as an unknown or abnormal risk. At that time, portfolio return fell outside the expected range of most models based on a normal distribution of returns.
When a decision is made about how much risk to take (risk appetite) or a measurement is taken of how much loss can be tolerated without jeopardizing financial goals (risk capacity), unknown risk can cause investors to behave irrationally. People must consider their likely reaction to known risk and especially unknown risk to get a complete picture of their risk tolerance.
Michael M. Pompian, CFA®, CAIA®, CFP®—Risk Tolerance and Behavioral Finance

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Professional Investment Advice

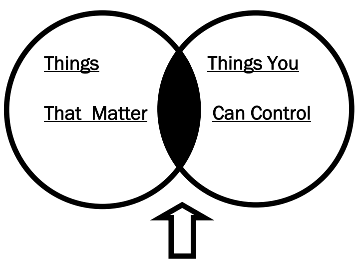
A similar logic can be applied to the value of advice: Paying a fee for advice and guidance to a professional who uses the tools and tactics described here can add meaningful value compared to the average investor experience, currently advised or not. We are in no way suggesting that every advisor, charging any fee, can add value, but merely that advisors can add value if they understand how they can best help investors. Vanguard Research—Sept 2016

Vanguard Quantifies the Value-Add of Best Practices in Wealth Management		
		Moving From The Scenario Described To Vanguard Advisor's Alpha Methodology
Vanguard Advisor's Alpha Strategy	Module	Typical Value Added For Client (basis points)
Suitable asset allocation using broadly diversified funds/ETFs	I	> 0 bps*
Cost-effective implementation (expense ratios)	II	40bps
Rebalancing	III	35bps
Behavioral coaching	IV	150bps
Asset location	V	0 to 75 bps
Spending Strategy (withdrawal order)	VI	0 to 110 bps
Total-return versus income investing	VII	> 0 bps*
Total Potential Value Added		**About 3% in net returns**
* Value is deemed significant but too unique to each investor to quantify		

Modules Conclusion

So where should we begin? We believe you should focus on those areas in which you have control, at least to some extend, such as:

- Helping clients select the asset allocation that is most appropriate to meeting goals and objectives, a given time horizon and risk tolerance.
- Implementing the asset allocation using low-cost investments and, to the extent possible, using asset-location guidelines.
- Limiting the deviations from the market portfolio, which will benefit clients.
- Concentrating on behavioral coaching and spending time communicating with clients.



What You Should Focus On

The Evidence Is Clear: Value investing beats growth investing over the long run, and it is not even close. From 1926 through 2015, using the data compiled by University of Chicago professor and Nobel laureate Eugene Fama and Dartmouth University professor Kenneth French, large-cap value provided a geometric average annual return of 11.2%, far exceeding the 9.4% provided by large-cap growth. The differences in small caps were even greater; with small cap value returning 13.9% compared with small-cap growth's 9.5%.
Famed investors like Ben Graham, Warren Buffet, Charlie Munger, John Neff, and Seth Klarman have all trumpeted the virtues of value investing.
The short-term path of stock prices is truly a crapshoot. Some pundits contend that the value trade has become crowded and that value investors may be disappointed over the short term. But, from the current point, over the long term, the odds are stacked in favor of the patient and disciplined value investor.
Robert R. Johnson—CEO of the American College of Financial Services.

	Standard Finance Built on 5 Foundation Blocks	According to Behavioral Finance
1	People are rational	People are normal
2	People construct portfolios as described by mean-variance portfolio theory.	People construct portfolios as described by behavioral portfolio theory, where people's portfolio - wants extend beyond high expected returns and low risk.
3	People save and spend as described by standard life-cycle theory, where people find it easy to find and follow the right way to save and spend.	People save and spend as described by behavioral life-cycle theory, where impediments, such as weak self-control make it difficult to find and follow the right way to save and spend.
4	Expected returns of investments are accounted for by standard asset pricing theory.	Expected returns of investments are accounted for by behavioral asset pricing theory, where differences in expected returns are determined by more than differences in risk.
5	Markets are efficient, in the sense that prices equal market values and in the sense that markets are hard to beat.	Markets are not efficient in the sense that prices equal market value, but they are efficient in the sense that markets are hard to beat.

Meir Statman, PHD—Investment & Health Monitor

Treasury Market Yields	06/30/2017	12/31/2016	12/31/2015
2 Year	1.38%	1.20%	1.06%
5 Year	1.89%	1.93%	1.76%
10 Year	2.31%	2.45%	2.27%
30 Year	2.84%	3.06%	3.01%
SP 500	1.96%	2.07%	2.14%
Commodities			
Oil ($bal)	$46.04	$37.04	$53.27
Gold ($/oz.)	$1240.70	$1060.30	$1183.90
CRB Index	$174.78	$176.27	$229.96