DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
22405.09	6495.96	2519.36	1490.86	7801.34	51.67	0.8465	2.33	1.00-1.25	4.25

Money Manager Newsletter

September 30, 2017

Investment Consulting Group, Inc.

"Marx's Great Achievement Was To Place The System Of Capitalism On The Defensive"
Charles A. Madison 1977

Today's Investment Environment
What I think are the four most noteworthy components of current conditions:

- The uncertainties are unusual in terms of number, scale and insolubility. Including secular economic growth; the impact of central banks, interest rates and inflations; political dysfunction; geopolitical trouble spots and long-term impact of technology.
- Prospective returns are just about the lowest they have ever been
- Asset prices are high across the board
  The best investment managers can do is look for stocks that are less over priced.
- Pro-risk behavior is common, as a majority of investors embrace increased risk.

This may be the exactly wrong time to add risk in pursuit of more return.

As Warren Buffett said in February, "Measured against interests rates, stocks actually are on the cheap side compared to historic valuations. But, the risk always is that interest rates go up a lot and that brings stocks down." "Investing is not black or white, in or out, risky or safe." The key word is "calibrate" the amount you have invested, your asset allocation of capital and the risk of each asset should be calibrated along assets that run from aggressive to defensive. It's possible to improve investment results by adjusting your positioning to fit the market. I believe:
a) The easy money in this cycle has been made,
b) The world is a risky place,
c) Securities are high priced, and investors should probably be taking less risk today not "out" but less risk.

If we accept there is no better or worse time, simply give up on the latter. As Buffett says, "Be fearful when others are greedy and greedy when others are fearful", or as Howard Marks said, "We should be equally greedy and fearful all the time. It's time for caution, not a full-scale exodus."

Passive Investing
Passive investing can be thought as low risk, low cost and non-opinionated way to participate in "The Market". The positives:

- Passive has outperformed active over the last decade.
- Passive investing guarantee's not to underperform the index .
- Lower fees and expenses are certain to constitute a permanent advantage to active management but, the negatives:
- Passive investing surrenders the possibility of outperformance
- Recent underperformance for active managers may well prove to be cyclical rather than permanent
- ETF's promise of liquidity has yet to be tested in a major bear market.

Howard Marks — Oaktree Capital

Jack Bogle, the legendary founder of Vanguard, has won the argument. Time and experience have demonstrated that for most investors, low-cost indexing is the most efficient way to invest. Over the past five years, indexers have outperformed the vast majority of active managers. Can this go on forever? Highly doubtful. While indexation is efficient and effective, there has never been a really good idea on Wall Street that hasn't been taken to a foolish extreme (mortgage-backed securities, triple-levered exchange-traded funds, or smart beta). The situation is reminiscent of the old tale about the poker game host who admonishes his friends, saying, "Let's all play our cards carefully and maybe we can all make some money tonight." Since indexing has become broadly accepted, it seems that we are closer to the end of a cycle than to the beginning. Indexing has brought great benefits, enabling investors to play in a much more attractive arena. Frederick E. "Shad" Rowe Barron's

Super Stocks
Bull markets are often marked by the anointment of a single group of stocks as "The Greatest". The current iteration applied to this thought is the "the FAANGs", Facebook, Amazon, Apple, Netflix and Google (now Alphabet). They all sport a great business model and unchallenged leadership. In a passage of one company's 1997 letter to shareholders: We establish long term relationships with many strategic partners including America Online, Yahoo, Excite, Netscape, GeoCities, Alta Vista, @Home, and Prodigy. How many of these "strategic partners" still exist in a meaningful way. The super-stocks that lead a bull market inevitable become priced for perfection and perfection turns out to be deceptive.

Equifax 2017 Security Breach
To check, go to www.Equifax.com, 2017 Security Breach. Put in last name and last six digits of social security number.

"The inherent vice of capitalism is the unequal sharing of blessings: The inherent virtue of Socialism is the equal sharing of miseries." Winston Churchill

Amazon did not kill the retail industry. They did it to themselves with bad customer service. Netflix did not kill Blockbuster. They did it to themselves with ridiculous late fees. Uber did not kill the taxi business. They did it to themselves with limited the number of taxis and fare control. Apple did not kill the music industry. They did it to themselves by forcing people to buy full-length albums. Airbnb did not kill the hotel industry. They did it to themselves with limited availability and pricing options. Technology by itself is not the real disruptor. Being non-customer centric is the biggest threat to any business.
Alberto Brea—Executive Director, Engagement Planning at OgilvyOne Worldwide

The Wage Paradox
So why haven't wages risen faster amid an increase in hiring and unfilled jobs? One answer is that wages have actually been growing at a faster clip, around 4% to 5%, at least for full-time workers with steady jobs. But new full-time workers who are generally paid less than the retirees they replace are dragging down the average wage increase.

The odds of a December rate hike are rising a bit, according to Bloomberg News. Fed funds futures are so cheap and because "the global inflation trade is alive and well." The probability of a December hike has increased from 22% to 35%. A few reasons are: The Fed is so thoroughly committed to "one-month-doesn't-make-a-trend thinking", Everything good in the domestic Chinese economy right now, and Harvey, Irma and possible Jose will dent Q3 GDP by as much as 1%. The number of Florida homes and business without power has fallen. Before AC, nobody lived in Florida and for good reason. When the temperature was sitting at 88 degrees, it's easy to forget that this is really a jungle we live in. Chris Low—Chief Economist

Don't be overly concerned about your heirs. Usually, unearned funds do them more harm than good. Gerald M. Loeb (EF Hutton)

Experiences > Money   Carl Richards

August car sales were the worst in years as nervous buyers on the Texas Gulf coast and in Florida delayed purchases. Projections suggest it will be nearby and meteorologists are talking about a 15 foot storm surge, who wants to buy a car and risk losing it in the same month? An estimated 1 million cars were destroyed and need to be replaced. Auto makers stored new car inventories in the Houston area. Many of those were destroyed too. Car sales are expected to surge from 16.03m to 17.15m. A big storm can boost GDP for several quarters as there is so much to rebuild. It will show up in durable orders, construction and employment data next. Chris Low—Chief Economist

09/30/2017	Growth Median P/E	Historical Growth Avg.	Value Median P/E	Historical Value Avg.
Royal Blues	28.9x	24.8x	15.3x	11.5x
Large Cap	23.0x	20.0x	13.2x	10.8x
Mid Cap	25.9x	23.5x	14.2x	12.0x
Sm Cap	32.9x	27.6x	15.4x	12.1x

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War is too important to be left to the generals, it's often said, and that could also describe monetary policy and the academics who run it. With few exceptions, the world's central bankers went to the same universities and subscribe to the same orthodoxies. The standard parameters for Fed policy are full employment with price stability, which hardly seem controversial. To a great extend, those conditions have been met. That decision making process comes out of academia. Academic economists didn't always run Fed policy. During most of the 1950s and 1960s, William McChesney Martin Jr., a former stockbroker and Big Board governor, led the central bank. Mr. Martin was famous for not being an economist. Martin spoke with many, many, many people around the country and was a great listener. That eclectic approach was summed up in his most famous policy prescription: that the Fed should "take away the punch bowl when the party got going" in order to stave off inflation. In other words, policies could not always be dictated by models and formulas.

James Grant, editor of Grant's Interest Rate Observer says, "How else do you explain depression-level interest, conjoined with boom-time [price/earnings multiples]?" he asks rhetorically. Almost 10 years past the crisis, crisis-level rates and a $4 trillion-plus balance sheet are "blowing a bubble." Robert Kessler, who heads Kessler Investment Advisors in Denver, sees a danger of recession. The only reason to raise rates now, he argues, is to be able to lower them if the economy turns down. "That's idiotic". Finally, Paul Kasriel offers a novel idea for the Fed: Focus on money and credit. Legacy Private Trust says, the sum of Fed-created credit (currency, plus bank reserves) plus bank created credit leads the economy. Kasriel would expand, not shrink the Fed's balance sheet to restore 5% growth, and let the market set the fed funds rate. As Einstein supposedly said, the definition of insanity is doing the same thing over and over again and expecting different results. Randall W. Forsyth—Barron's

Harvey, Irma and Maria. Houses will be rebuilt, helping the construction industry and increasing lumber and cement sales. Carpeting will need to be purchased, as will furniture and appliances. In many businesses, inventories will have to be replenished. There are many other seen economy benefits that will arise from these massive natural catastrophes. It is the unseen effects on the economy that are more difficult to discern. Business will be lost while companies rebuild and refurbish. Some businesses will not even reopen. Loss of jobs and loss of personal income are perhaps the biggest negatives to the economy. These are longer-term negatives as money spent rebuilding is money lost to the rest of the economy. Ultimately Harvey and Irma were truly disasters for the economy. Dana Investment Advisors, Inc.

Investors with courage should loan up on emerging markets stocks and sell off U.S. stocks. So says Rob Arnott, the founder and CEO of Research Affiliates. Smart beta funds take an active approach to passive management; these are index funds, but stocks are selected based on factors other than size, such as value, low volatility, momentum, or other more esoteric criteria in an effort to beat the market. Buy cheap assets and sell expensive ones. And right now, U.S. stocks look overpriced and emerging markets stocks look cheap, he told Barrons.com in a recent interview. Rob Arnott

Many of the fast-growing countries that drove the EM benchmark higher over the past 15 years are still large weights within the index today. Their respective growth, however, have fallen dramatically. Growth rates fallen for many EM countries point to several reasons including the cyclicality of certain economies and failure to implement meaningful reforms. Another consistent reason is that when a country's economy expands and its populations becomes richer causing it to become more developed its growth rate tends to fall. China is experiencing this today as it struggles to maintain high levels of growth. South Korea, Taiwan, Brazil, Russia, Mexico, Poland, Hungary, Chile, Malaysia and Turkey are great examples of EM fast growers which have naturally slowed as they have become more developed. In contrast, what we call the "Next 7" (fast growers in Asia including India, Indonesia, Vietnam, Pakistan, Bangladesh, Sri Lanka and the Philippines) had GDP growth in aggregate of 5.93%! We believe (and empirical evidence suggests) that higher nominal growth correlates broadly to higher corporate earnings. Smaller emerging markets share many of the same risks as their large, more developed counterparts. But in addition, an active manager needs to address unique risks. We admit political risk is difficult to quantify and even more challenging to predict. The good news is that because Next 7 economies are in very early stages of development, many companies listed on their stock exchanges tend to revolve around "basic necessities." In other words, food, clothing, health care and other consumer durables tend to be well represented. Companies providing basic goods and services tend to have fewer regulatory pressures.
David Dali—Matthews Asia

Treasury Market Yields	09/30/2017	12/31/2016	12/31/2015
2 Year	1.47%	1.20%	1.06%
5 Year	1.92%	1.93%	1.76%
10 Year	2.33%	2.45%	2.27%
30 Year	2.86%	3.06%	3.01%
SP 500	1.98%	2.07%	2.14%
Commodities			
Oil ($bal)	$51.67	$37.04	$53.27
Gold ($/oz.)	$1281.50	$1060.30	$1183.90
CRB Index	$183.09	$176.27	$229.96