DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
17619.51	4986.87	2063.11	1253.95	6780.92	59.47	0.8976	2.35	0-0.25	3.25

Money Manager Newsletter

June 30, 2015

Investment Consulting Group, Inc.

"It's Not What You Don't Know That Gets You in Trouble, But What You Know For Certain That Just Ain't True"
Mark Twain

Interest rates are important to investors. When rates return to more normal (higher) levels, holders of longer-term bonds may suffer significant declines in the market value of their holdings. Higher bond yields also offer stiffer competition for stocks, and all things being equal, rising rates are negative for stock valuations. Higher rates can also depress corporate profits and companies' enthusiasm for expansion. Thus, we are very interested in how the general level of interest rates may change over a period of years. We want to know how our companies are preparing for higher rate environment. However, we do not make any important investment decisions based on day to day actions or pronouncements of the Fed. We believe that obsessive "Fed-watching" is misplaced effort. We often write about wanting to buy stocks at 50-60% of our estimate of business value. Today, we find ourselves (again) holding stocks that are more "fairly" priced above our "buy" price but with room to appreciate over time.
Weitz Investments

Bloomberg News notes a big increase in savings among top earners as a reason consumption growth is slow. They blame the long reach of the recession, which featured a financial crisis which wiped out more than half the value of the stock market, devalued homes and otherwise devastated savings. People tend to rise through the quintiles as they age, meaning there is a disproportionate number of people close to retirement in the top quintile, and many likely are repairing their retirement savings post recession. But it wasn't just the recession that hurt top earners in recent years. The President's insistence on a massive tax increase in 2013 (though only half as massive as he wanted) slashed the saving rate from 7% to less than 5%. His healthcare overhaul added to the top-bracket burden by eliminating the Medicare tax ceiling and adding a healthcare surcharge on top of that for those earning more than $250K. The saving rate dipped as low as 4.1% at the start of 2014 as a result. It takes a while for people to adjust their living standards after an income loss. But given substantial tax increases in the past three years hitting the top bracket, it shouldn't be surprising people in the top bracket are increasing their savings. FTN Financial Economics

"If you spend more than 14 minutes worrying about the market, you've wasted 12 minutes." Peter Lynch

06/30/2015	Growth Median P/E	Value Median P/E	Historical Growth Avg.	Historical Value Avg.
Royal Blues	25.6x	14.2x	24.6x	11.3x
Large Cap	20.8x	12.9x	19.8x	10.7x
Mid Cap	24.4x	14.4x	23.4x	11.9x
Sm Cap	30.0x	14.2x	27.5x	11.9x

What Risk Really Means

In thinking about risk, we want to identify the thing that investors worry about and thus demand compensation for bearing. I don't think most investors fear volatility. What they fear is the possibility of permanent loss. Permanent loss is very different from volatility or fluctuation. A permanent loss from which there won't be a rebound can occur for either of two reasons: (a) an otherwise-temporary dip is locked in when the investor sells during a downswing or (b) the investment itself is unable to recover for fundamental reasons. We can ride out volatility, but we never get a chance to undo a permanent loss. The probability of loss is no more measurable than the probability of rain. It can be modeled, and it can be estimated, but it cannot be known.

Investment performance (like life in general) is a lot like choosing a lottery winner by pulling one ticket from a bowlful. Superior investors have a better sense for what's in the bowl, and thus for whether it's worth buying a ticket in a lottery. But even they don't know for sure which one will be chosen.

Risk exists only in the future, and it's impossible to know for sure what the future holds.

Some investors with needs, particularly those who live on their income, and especially in today's low return environment face a serious conundrum. If they put their money into safe investments, their returns may be inadequate. But if they take on incremental risk in pursuit of a higher return, they face the possibility of a still-lower return, and perhaps of permanent diminution of their capital, rendering their subsequent income lower still. There's no easy way to resolve this conundrum.

Today I feel it's important to pay more attention to loss prevention than to the pursuit of gain. For the last four years Oaktree's mantra has been "move forward, but with caution." At this time, in reiterating that mantra, I would increase the emphasis on those last three words: "but with caution." Economic and company fundamentals in the U.S. are fine today, and asset prices, while full, don't seem to be at a bubble levels. Although I have no idea what could make the day of reckoning come sooner rather than later, I don't think it's too early to take today's carefree market conditions into consideration. What I do know is that those conditions are creating a degree of risk for which there is not commensurate risk premium. We have to behave accordingly. Howard Marks — Oaktree Capital

"Ignore economic and financial forecast. Their purpose it to keep forecasters employed. Most professional economists were blindsided in 2009 by the biggest financial collapse in 70 years and by the stock market's recovery." Brett Arends, The Wall Street Journal 2/7/2015

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Treasury Market Yields	06/30/2015	12/31/2014	12/31/2013
2 Year	0.64%	0.67%	0.38%
5 Year	1.63%	1.65%	1.75%
10 Year	2.35%	2.17%	3.04%
30 Year	3.11%	2.75%	3.96%
Commodities			
Oil ($bal)	$59.47	$53.27	$99.29
Gold ($/oz.)	$1171.50	$1183.90	$1203.10
CRB Index	$227.17	$229.96	$282.57

They say you want a Revolution...

At a recent conference, a speaker made the prediction that his 3 year old child would never drive a car. He believed that in the next 13 years autonomous cars would take center stage. No one would buy cars anymore, you would order the vehicle you need based on your mood and situation. If you need a large vehicle to transport you and a handful of friends on a golf trip, you just order a passenger van. The van picks you up at a predetermined time (perfectly on schedule because it is run by machine!), and drives you to your final destination. Bring work with you; the vehicle drives itself! If you have a date, just order a little two-seater that would be a little cozier. Think "Uber," except without someone driving the car. And before you shut the idea down as science fiction, know that every major car company (and a few others such as Google and Tesla) is working on a driverless car with the expectation that they'll be on the road by 2020.

Think of all the time and resources this would free up. No longer would a commute be a waste of time; you could catch up on emails while the car drove. The car is more efficient than a human driver; gas mileage improves. The machine is a better driver; speed limits increase and accidents decrease. No one needs to buy a car anymore; those resources are redeployed in a more efficient manner. Also, the autonomous cars are able to make roads more efficient; it is predicted that current roadways could handle up to 8 times the number of vehicles they can currently handle. Cities no longer have to push for expansion, the existing roads could handle everything we have, and more.

This is not meant to excite or cause consternation about the automotive industry, but merely an opportunity to show that things are moving forward. Despite suffering through the Great Recession, an anemic recovery, and an unemployment situation that still hasn't completely recovered, innovation is still happening. It will be important to keep an eye on these positives when the next downturn rears its ugly head.

Malcom Berko recently commented on Traditional Asset Allocation...."Going by the book is for folks who are not spontaneous, who lack creativity, won't take chances, have weird friends and need an authority figure for guidance. A portfolio of 60 percent stocks and 40 percent bonds when you retire is by the book and industrial strength stupid. If you were retired today and 40 percent of your portfolio were in bonds, you'd be collecting food stamps, using Medicaid, applying for housing assistance and shopping at Dollar Tree, The Salvation Army and flea markets. Most good stocks deliver better inflation adjusted returns than bonds. Malcolm Berko

The Supreme Court ruled unanimously in favor of participants in employee retirement plans who object to companies' investment decisions that eat into retirement savings. The employees argued that the company chose mutual funds with excessive fees. The Rock Island Argus

Political leaders in both parties should read An Inquiry into the Nature and Causes of the Wealth of States by Arthur Laffer, Stephen Moore, Rex A Sinquefield and Travis H. Brown (Wiley, 2014). It gave conclusive, empirical proof that over time states with no income taxes perform better than those with the heaviest burdens: better in economic growth, population growth, job growth, personal income growth and government revenue growth. Steve Forbes, Editor-In-Chief

There is some concern over stubbornly low wage growth and low productivity in the economy. Small businesses create most of the new jobs and are having some difficulty obtaining funds for expansion, but their bigger problems are the myriad of new regulations. The Wall Street Journal states that this administration has twice set the annual record by issuing more than 81,000 pages of regulations. The Kauffman Foundation, which tracks new businesses, says its data shows 2013 was the third consecutive year to show a decline in entrepreneurial activity in the United States. It's a testament to people who can walk through all the regulations and start a business. Big businesses on the other hand have easy access to funds; for the most part they have plenty of cash on their balance sheets. Rather than expand their current business or start a new subsidiary and face all the regulatory problems, they simply go out and buy an existing business. Other monies on big businesses balance sheets are going into financial assets (stock buybacks) rather than capital investment. This may account for some of the weakness in overall productivity.
Dana Investment Advisors, Inc.