DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
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Money Manager Newsletter

March 31, 2015

Investment Consulting Group, Inc.

**"Expecting A Fund To Beat An Index Every Year Is Just Silly,
As Is Expecting An Index Fund To Beat A Good Actively Managed Fund Every Year"
Russel Kinnel, Morningstar.com**

Lately, with many indexes outpacing the actively managed portfolios designed to beat them, investors are once again asking whether active management is worth the effort and the cost. A review of the historical evidence yields a definitive answer: **Yes** We decided to look at the ranking of the Russell indexes in each market capitalization range on a rolling five year basis, measured each calendar quarter end, relative to an active manager performance universe. A couple of observations stand out. The ranking of index varies considerably over time. Sometimes it does much better than its average and most active managers (with the exception of the Russell 2000® which is a chronic underperformer versus active managers), while other times it falls considerably short of its own average and the performance of active managers. Second, the index finishes below median far more often than it is above median, and its average ranking over all periods is well below median! The average ranking of each index on a rolling five year period is as follows:

	Russell 1000®	Russell Midcap®	Russell 2000®
Average ranking across all periods	59	58	74

Based upon this analysis, active management appears to be, by far and away, the best alternative in small cap, as the index ranks particularly poorly over time. While currently out of favor in the large cap and mid cap space, active management has added value over time, and we expect that this will again be the case going forward. If it were as simple as buying the strategy or index that had done the best over the last year or five years, investing would be easy. Unfortunately, it isn't that simple, and in fact, that type of an approach is very likely to fail. No investment strategy works all the time.
Systematic Financial Management

Last June, in an interview with Adam Bryant of The Times, Laszlo Bock, the senior vice president of people operations for Google—i.e., the guy in charge of hiring for one of the world's most successful companies—noted that Google had determined that "G.P.A.'s are worthless as a criteria for hiring, and test scores are worthless. We found that they don't predict anything." He also noted that the "proportion of people without any college education at Google has increased over time" - now as high as 14 percent on some teams. At a time when many people are asking, "How's my kid going get a job?" I thought it would be useful to visit Google and hear how Bock would answer.
Don't get him wrong, Bock begins, "Good grades certainly don't hurt." Many jobs at Google require math, computing and coding skills, so if your grades truly reflect skills in those areas that you can apply, it would be an advantage. But google has its eyes on much more. Talent can come in so many different forms and be built in so many nontraditional ways today, hiring officers have to be alive to every one besides brand-name colleges. Google attracts so much talent it can afford to look beyond traditional metrics, like G.P.A. For most young people, though, going to college and doing well is still the best way to master the tools needed for many careers. Beware. Your degree is not a proxy for your ability to do any job. The world only cares about—and pays off on– what you can do with what you know (and it doesn't care how you learned it). In an age when innovation is increasingly a group endeavor, it also cares about a lot of soft skills—leadership, humility, collaboration, adaptability and loving to learn and re-learn. This will be true no matter where you go to work.
Thomas Friedman

03/31/2015	Growth Median P/E	Value Median P/E	Historical Growth Avg.	Historical Value Avg.
Royal Blues	27.3x	14.0x	24.6x	11.3x
Large Cap	21.9x	13.8x	19.8x	10.7x
Mid Cap	24.4x	14.9x	23.3x	11.9x
Sm Cap	29.0x	14.0x	27.4x	11.9x

Employment Stats Of The Civilian Population			
Employment	January 2015	February 2015	March 2015
Participant Rate	62.9	62.8	62.7
Unemployment Rate	5.7	5.5	5.5

Broad Observations

- Domestic small business start-ups/growth is still slow which will likely constrain job creation.
- Companies with cost restructuring opportunities generally seem to be accelerating these plans as a soft global economy and foreign exchange headwinds weigh down top-line growth and constrain operating leverage.

Consumer

- The average household globally consumes 26 beverages per day.

Financial

- Growth in net interest income may be a challenge for banks in 2015 as new regulatory requirements around liquidity and capital levels continue to pressure margins.
- In a survey, 1/3 of pension plan sponsors said they will consider a pension closeout in the next several years.

Healthcare

- One health insurer noted that 5% of its members consume 54% of its total medical costs. Among the 5%, 60% of them have 5 or more chronic conditions.

Energy

- Major energy firms are still contemplating their budgets. Trade-offs exist between property acquisition, production levels, infrastructure spend and balance sheet leverage. Smaller E&Ps are more concerned with access to capital.

Industrial

- Uncertainty about competitive pricing (due to recent strength of US $) is a concern among domestic manufacturers.

Technology

- An interesting tidbit, if the cash on Apple's balance sheet were a freestanding company, it would be in the top 20 largest US companies by market cap.
- Security is the number 1 topic for many firms. The "build a wall" method of security is not believed to be a viable strategy as more devices get interconnected. New frameworks will appear and evolve.
- Mobile Payments/systems are likely to be rapidly adopted in emerging economies as they will leapfrog "wired PCs" and go straight to mobile systems/devices.
- The payments eco-system has never responded so fast as it has for Apple Pay. Banks, card issuers, merchants and networks have all moved to quickly incorporate the changes.

"There's no way that you can live an adequate life without mistakes. In fact, one trick in life is to get so you can handle mistakes. Failure to handle psychological denial is a common way for people to go broke."
Charlie Munger

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Treasury Market Yields	03/31/2015	12/31/2014	12/31/2013
2 Year	0.56%	0.67%	0.38%
5 Year	1.37%	1.65%	1.75%
10 Year	1.94%	2.17%	3.04%
30 Year	2.54%	2.75%	3.96%
Commodities			
Oil ($bal)	$47.60	$53.27	$99.29
Gold ($/oz.)	$1183.10	$1183.90	$1203.10
CRB Index	$211.86	$229.96	$282.57

"Traditionally the investor has been the man with patience and the courage of his convictions who would buy when the harried or disheartened speculator was selling." Benjamin Graham & David Dodd

Last year two passages in the WSJ of 19 September. The first, a headline statement of confidence, read "American Wealth Hits High." The second, a strong reflection of delicate balance, was a statement from Fed Chair Janet Yellen. A Fed survey had found that an unexpected expense of $400 would force a majority of American families to borrow money, sell something or simply not pay. Hence the domestic data contradictions—in addition to the global macros—that the Fed faces as it seeks an appropriate time to raise rates. The older, wealthier portion of our population is de-leveraged and slower to contribute to the velocity of money (and, therefore, inflation).
Gene Natali, Chief Executive Officer; C.S. McKee

Trying to put two pounds of feathers in a one pound bag. That's the Euro-zone. Many of their members are facing a two-edged sword: recession and deflation. They are trying to print their way out of these twin problems, and it's Keynesian economics at its worst. Big government, high taxes, and run the printing press. It doesn't work and its not working. They are forcing their investors to invest in the U.S. Old timers like to say the market likes to climb a "wall of worry". By that measurement this market has further to go.
Dana Investment Advisors, Inc.

The four horsemen of the investment apocalypse are fear, greed, hope and ignorance. And notice, only one of them four is not an emotion—ignorance. These four things have accounted for more losses in the market than any recession or depression, and they will never change. Even if you correct ignorance, the other three will get you every time.
James P. O'Shaughnessy, Asset Manager

John Templeton was a famous value investor and a giant in the investment community when asked where the investment outlook was best, he invariably replied, "Wrong question! You should be asking where the investment outlook is worst."

"The Stock Market is designed to transfer money from the Active to the Patient." Warren Buffet

"Never be afraid to try something new. Remember that a lone amateur built the Ark. A large group of professionals built the Titanic."
Dave Barry, Humorist

Emerging markets used to be a beacon of hope in the world economy, but now they are more often a source of gloom. China's economy is slowing. Brazil is mired in stagflation. Russia is in recession, battered by Western sanctions and the slump in the oil price; South Africa is plagued by inefficiency and corruption. Amid the disappointment one big emerging market stands out: India. If India could only take wing it would become the global economy's high-flyer, but to do so it must shed the legacy of counter-productive policy. India possesses untold promise. Its people are entrepreneurial and roughly half of the 1.25 billion population is under 25 years old. It is poor, so has lots of scope for catch-up growth: GDP per person (at purchasing power parity) was $5,500 in 2013, compared with $11,900 in China and $15,000 in Brazil. The economy has been balkanized by local taxes levied at state borders, but cross-party support for a national goods and services tax could create a true common market. The potential is there; the question has always been whether it can be unleashed. If India is to thrive, it needs bold reforms and political courage to match. The tried and tested development strategy is to move people from penurious farm jobs to more productive work with better pay. China's rise was built on export-led manufacturing. The scope to follow that model is limited. Supply chain trade growth has slowed, and manufacturing is becoming less labor-intensive as a result of technology. Yet India could manage better than it does now. It has a world class IT services industry, which remains too skill-intensive and too small to absorb the 90m-115m often ill-educated youngsters entering the job market in the next decade. The country's best hope is mixed approach, expanding its participation in global markets in both industry and services. To achieve this must focus on three inputs: land, power and labor. Adversity has in the past been the spur to radical change in India. The 1991 budget was in response to balance of payments crisis. The danger is that, with inflation falling and India enjoying a boost from cheaper energy, the country's leaders duck the tough reforms needed for lasting success.
The Economist— February 2015

Yellen seems quite comfortable that the equilibrium real fed funds rate is, for now anyway, close to zero. "Keeping in mind the all-important proviso that policy is never predetermined but is always data dependent, what can we say about the appropriate path of policy, assuming the most likely outcomes for real activity, inflation, and related factors? The answer is that it depends, of course, on one's outlook for the economy." In other words, the market, with its much lower expectations for inflation than the Fed, is correct to bet on a lower tightening path, as long as the market forecast stays on track. Yellen ended her speech with a throwback to a two year old idea. "A final argument for gradually adjusting policy relates to the desirability of achieving a prompt return of inflation to the FOMC's 2 percent goal, an objective that would be advanced by allowing the unemployment rate to decline for a time somewhat below estimates of its longer-run sustainable level." While perusing Fed speeches, it's worth reading Stan Fischer's Monday speech from the same Stone Mountain, GA conference. It is the clearest most accurate accounting of shadow banks' prominent role in the financial crisis we've ever seen from anyone at the Fed or Treasury. If Fischer had been around in 2009 and '10, Congress might have avoided some of the more unfortunate aspects of the Dodd-Frank Act, most of which were born from the mistaken idea that commercial banks took dangerous risks before the crisis. Chris Low

"Life is like riding a bicycle. You don't fall off unless you stop peddling."