DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
16284.70	4620.16	1920.03	1100.69	6090.20	45.09	0.8947	2.06	0-0.25	3.25

Money Manager Newsletter

September 30, 2015

Investment Consulting Group, Inc.

"The Inherent Vice of Capitalism Is The Unequal Sharing of the Blessing. The Inherent Blessing of Socialism is the Equal Sharing of Misery"
Winston Churchill

"There is nothing reliable to be learned about making money. If there were, study would be intense and everyone with a positive IQ would be rich." John Kenneth Galbraith

While it's pretty simple to achieve average results, it shouldn't be easy to make superior investments and earn outsized returns.
Remember your goal in investing isn't to earn average returns; you want to do better than average. Thus your thinking has to be better than that of others, both more powerful and at a higher level. Since others may be smart, well-informed and highly computerized, you must find an edge they don't have. You must think of something they haven't thought of, see things they miss, or bring insight they don't possess. You have to react differently and behave differently. In short, being right may be a necessary condition for investment success, but it won't be sufficient. You must be more right than others, which by definition means your thinking has to be different.

One of the biggest mistakes you can make, as Ben Graham pointed out, is the day to day market isn't a fundamental analyst; it's a barometer of investor sentiment. You just can't take it too seriously. Market participants have limited insight into what's really happening in terms of fundamentals, and any intelligence that could be behind their buys and sells is obscured by their emotional swings.

So What Works?
Superior investing isn't easy. I've set forth a number of examples of its complexity, and a long list of simplistic rules that can't be depended on. Among the many things that keep investing from being easy is the fact that no tactic works every time. Almost every tool an investor might employ is a two-edged sword. Here's how I put it last year in "Dare to Be Great II":

- If you invest, you will lose money if the market declines.
- If you don't invest, you will miss out on gains if the market rises.

- Market timing will add value if it can be done right.
- Buy and hold will produce better results if timing can't be done right.

- Aggressiveness will help when the market rises but hurt when it falls.
- Defensiveness will help when the market falls but hurt when it rises.

- If you concentrate your portfolio, your mistakes will kill you.
- If you diversify, the payoff from your successes will be diminished.

- If you employ leverage, your successes will be magnified.
- If you employ leverage, your mistakes will be magnified.

Each of these pairings indicates symmetry. None of the tactics listed will add value if it's right but not subtract if it's wrong. Thus none of these tactics, in and of itself, can hold the secret to dependably above average investment performance. Howard Marks; Oaktree Capital Management, L.P.

09/30/2015	Growth Median P/E	Value Median P/E	Historical Growth Avg.	Historical Value Avg.
Royal Blues	24.9x	13.2x	24.6x	11.3x
Large Cap	19.4x	11.7x	19.8x	10.7x
Mid Cap	22.0x	12.6x	23.3x	11.9x
Sm Cap	24.1x	12.4x	27.5x	11.9x

Perhaps the government is being too generous with entitlement benefits. England reduced their entitlement program and the unemployment rate dropped and the economy picked up. If employers are correct, we could certainly increase the employee participation rate which has been hovering near its mid-1970's low around 62.5%. Putting people to work would also increase tax revenue for federal and state governments. It would also likely improve many of our social problems and lift the mood of the whole country. America still has so much untapped potential and if the government would stress more individual responsibility, we would unleash so much creative energy that could push the economy and America forward and out of the holding pattern we have been in since the recession ended in June 2009.

China is getting its first real taste of the free enterprise system (a free market capitalist system). After more than a decade of double digit growth, their economy finally hit a speed bump. According to Chinese officials their economy is growing at a 7% annual clip. However, there is no real way to verify that and it is probably less considering the measures the government has been taking such as:

1.) Devaluing the currency (yuan) to pump up exports
2.) Attempting to stop short selling in their stock market
3.) Lending more to banks who are told to encourage investors to borrow and buy common stocks
4.) Telling their bigger stock brokerage firms and mutual funds to buy stocks

This is not free enterprise. This is big government trying to control the economy and the stock market. This does not work as we found out in the 1930's and since 2008. These actions will only delay the recovery. Dana Investment Advisors, Inc.

FORECAST	REAL GDP		HEADLINE INFLATION	
	Current*	Q3'15-Q3'16	Current*	Q3'15-Q3'16
United States	2.7%	2.25% to 2.75%	1.8%	1.75% to 2.25%
Eurozone	1.5%	1.5% to 2.0%	0.2%	1.0% to 1.5%
United Kingdom	2.6%	2.25% to 2.75%	0.0%	1.25% to 1.75%
Japan	0.8%	1.25% to 1.75%	0.6%	1.0% to 1.5%
China	7.0%	5.5% to 6.5%	1.5%	1.5% to 2.5%
BRIM**	30.0%	2.0% to 3.0%	8.4%	5.0% to 6.0%
World***	2.7%	2.5% to 3.0%	2.1%	2.0% to 2.5%

*Current data for real GDP and inflation represent four quarters ending Q2 2015
** BRIM is Brazil, Russia, India, Mexico
*** World is the GDP weighted average of countries listed in table above
Source: Bloomberg, PIMCO calculations.

To date it has been insufficient to stave off a decline in commodity and equity prices or to discourage renewed fears of disinflation amid concerns that China will not be able to navigate the New Normal trajectory for growth and global financial integration they have set for themselves. Drawing on superb presentations from our Americas, European and Asia-Pacific portfolio committees, as well as from our emerging market (EM) team, and following a very robust and wide-ranging internal discussion, we coalesced on a baseline view that global economic prospects over the next 12 months remain broadly unchanged from where we saw them in March and are consistent with global GDP growth in the range of 2.5% to 3% and global inflation of 2% to 2.5%. Pimco

With full employment close, Ben Bernanke in his new book says, "Growth must come from productivity, which means Congress should pursue a fiscal policy which promotes worker skills and fosters capital investment."

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Treasury Market Yields	09/30/2015	12/31/2014	12/31/2013
2 Year	0.64%	0.67%	0.38%
5 Year	1.37%	1.65%	1.75%
10 Year	2.06%	2.17%	3.04%
30 Year	2.87%	2.75%	3.96%
Commodities			
Oil ($bal)	$45.09	$53.27	$99.29
Gold ($/oz.)	$1151.50	$1183.90	$1203.10
CRB Index	$193.76	$229.96	$282.57

Remember when emerging economies were supposed to save us all? After the 2008 financial crisis, the traditional engines of global growth, the U.S., Western Europe, and Japan, stumbled into recession. To the rescue came the once poor developing world. China, India, Brazil, and other up and comers powered the global economy through the historic downturn. The meek were inheriting the earth. Not completely, as it turns out. Today as the U.S. recovery gains steam and even debt burdened Europe stirs to life, the emerging world has tumbled into trouble. Growth is slowing, currencies are plunging, and investors are fleeing. Fears of a protracted slowdown in china sparked a worldwide stock selloff in August/September. The turmoil has even resurrected terrifying memories of previous emerging markets crises. But international investors are making a big mistake. The emerging world will be just fine, thank you. The global business community is allowing short-term uncertainty to cloud the long-term reality of the changing global economy: Emerging markets are still our future.

Terrible policy is to blame. Politicians have been complacent about implementing the reforms necessary to keep growth going. China is example No. 1: It's top leaders have done little to overhaul an outdated, investment heavy growth model. In India, perhaps the only major emerging economy with sound prospects right now, Prime Minister Narendra Modi has yet to prove he can walk his bold talk of deregulating the economy to encourage investment.

Nonetheless, the long-term story hasn't changed. The middle class in the U.S. and Europe will continue to be a pillar of the global economy, but the world's new consumers and new growth engines will still be found in developing, not developed, countries. Even if the Chinese leadership fails to shift from investment-dependent to consumption-led growth, consumer spending in China will grow 60 percent over the next decade.

Where stock markets, currencies, and growth rates will head in coming months may be unclear. That the meek will eventually inherit the earth is not.
Michael Schuman, Journalist

Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton (Friedman): Regarding the Great Depression, you're right; we did it. We're very sorry. But thanks to you, we won't do it again.
Ben Bernanke (Fed Chairman 2006-2014, 11/8/02 speech as Fed Governor, b. 1953)

Fact of the Day:
By law, French workers get at least 30 paid vacation days each year.

Two days after a report the Chinese government will end large scale share purchases, a late day rally in Shanghai lifted the CSI 300 index to a 0.1% gain. The buying, according to the WSJ, was done by brokerages at the government's behest to cheer up the gloomy populace before China's big WWII parade. (Economists cited by Bloomberg say the purchases were by State Owned Enterprises, but it amounts to the same thing.) The Shanghai and Shenzhen indices both fell, suggesting small companies' shares underperformed SOEs, which dominate the CSI blue chip index.
FTN Financial Economics AM Comment: September 2, 2015

Greece's economy may be pressed on all sides by austerity measures, capital controls, and political forces within and without. But as the October start of the olive harvest approaches, some of the country's entrepreneurs see a rare opportunity to take market share from Spain and Italy, the world's No. 1 and No. 2 producers of olive oil. Focus On/Small Business

Jack Bogle, a Vanguard founding father and among the wisest of the wise, was asked this morning about what he believes should be done in the midst of this correction. As reported, "Don't do something. Just stand there, Bogle quipped. ...The long term fundamentals in the U.S. economy are sound. Unless you need your money in the short-term, leaving your money in a portfolio with the right weighting of stocks for your age and risk tolerance still gives you the best chance for success in the long term, even in a volatile or falling market. Bogle himself isn't making a move." As we said, among the wisest of the wise. Nottinghill Investment Advisers, LTD. 8/24/15

(Charlie) Munger's invocation of multiple mental models has given him a mindset characterized by four guiding principles that any ordinary investor should follow: preparation, patience, discipline, and objectivity. When practiced correctly,, these attributes should result in buying great businesses at good prices and keeping one's portfolio turnover low.
Robert Goldsborough, MorningstarAdvisor.com May 1, 2015

Some economists expect a recession to begin soon. They say we're due because historically recessions have occurred every five to 10 years, and our last one ended in 2009.
But ace economist Edward Yardeni, president of Yardeni Research, says the next recession may not come until March 2019. That's based on the movement of the Index of Coincident Economic Indicators (CEI) over the past five business cycles. "It has taken 68 months, from January 2008 through October 2013, for the CEI to fully recover from its severe decline during 2008 and early 2009". The average time for a full recovery in the last five cycles was 26 months, with a range of 19-33 months. "The good news is that the average increase in the CEI following each of those recovery periods through the next peak was 18.6 percent," with an average period of 65 months and a range of 30 to 104 months. "If we apply this average to the current cycle, then the CEI would peak in 45 more months, during March 2019, with a substantial gain from here." The last economic-growth period lasted from 2001-2007. And what is fueling the strength? Of course, there's the Federal Reserve's low interest-rate policy. While the Fed is likely to begin raising rates this year, it's highly unlikely to push the federal funds target rate much.
Dan Weil—Newsmax.com