

Money Manager Newsletter

June 30, 2019

Investment Consulting Group, Inc.

"It Is Totally Unproductive To Think The World Has Been Unfair To You. Every Tough Stretch Is An Opportunity."

Charlie Munger—Vice Chair, Berkshire Hathaway

In 2018, wage inflation accelerated about 3.2%, while price inflation slowed to 1.8%. Wage inflation is still 3.2%, but inflation now is 1.5%. How is it possible US companies were able to pay workers 3.2% more per hour while holding cost increases to 1.5%? Productivity growth accelerated so that the labor cost of producing each unit of goods and services sold in the US rose only 0.1% in the past year. [Chris Low—FTN Financial](#)

Federal Reserve Bank of St. Louis—James Bullard 6/03/19

- Global trade disputes may be more protracted and more difficult to resolve
- U.S. economy expected to grow slowly
- Treasury yield curve moved toward inversion
- Market-based inflation expectations are below target
- Financial markets appear to expect less growth and less inflation
- A rate cut would only mean that inflation and inflation expectations return to target more rapidly.

He Said, Xi Said: Can There Be a U.S.– China Trade Deal?

What are the likely core components needed for a deal? The U.S. and China have talked publicly about compromises. The U.S. wants Chinese laws to protect intellectual property and patents. China argues that last year's tariffs should be removed, now that negotiations are in progress. China's industrial policies are another big obstacle. China subsidizes industries that it wants to become global leaders, especially biotechnology and telecommunications. These policies directly challenge U.S. global economic leadership. Washington's allegation of espionage against a Chinese telecom firm only heightens U.S. concerns. Recent surprises in the U.S.-China trade negotiations mark additional uncertainty. For the first time, the two sides are willing to impose punitive measures during negotiations. We still expect a U.S.-China trade deal later this year or in 2020, but the two sides could be settling in for a longer negotiation. We believe that global equity markets are overestimating the chance of a deal in Osaka. [Paul Christopher, CFA; Darrell Cronk, CFA—Wells Fargo Investment Institute](#)

Behavior Finance

- Past experience and current belief drives behavior
- Perception of volatility, friend vs foe, make it a friend
- Make volatility a friend—looking for opportunity
- Warren Buffet made the financial crisis a friend, He received 10% rate on loan, then converted to common stock.

Financial Media is the #1 Enemy

1.) Opposing predictions
 2.) Feeding short Outcomes
 3.) Playing on Investor motions
 Remember financial media is for selling advertising.
[Donald Stanforth, President—Investment Consulting Group, Inc.](#)

3/31/2019	Growth Median P/E	Historical Growth Avg.	Value Median P/E	Historical Value Avg.
Royal Blues	33.1x	25.0x	12.9x	11.6x
Large Cap	23.1x	20.1x	10.7x	10.9x
Mid Cap	30.2x	23.7x	11.1x	12.1x
Sm Cap	31.5x	27.7x	11.0x	12.1x

Guv'ment

Well, you dad-gum government
 You sorry so 'n' so's
 You got your damn hands in every pocket
 Of my clothes

Well you dad-gum, dad-gum, dad-gum government
 Oh don't you know
 Oh don't you love 'em sometimes

Well you dad-gum government
 You better pay attention
 You're sittin' up there like a fool's convention
 Well you dad-gum, dad-gum, dad-gum government
 Oh don't you know
 Oh don't you love 'em sometimes

Well you soul selling no-good
 Son-of-a-shoe-fittin' fire starters
 I ought to tear your no good
 Perambulatory bone frame
 And nail it to your government walls
 All of you
[Song by Roger Miller; Broadway play "Big River"](#)
[Sung by John Goodman](#)

Asia—boasts a large and heterogeneous health care sector, reflecting the diversity of the region itself. Demographics, rising income and innovation each contribute to the sector's growth. Competition can be fierce.

Japan—More than a quarter of Japan's population is age 65 or older, making age-related health care research a national priority. Japanese regulators allow treatments for some age-related conditions to come to market very quickly when they show early promise in small-scale trials.

China—Over 3.8 million new cases of cancer were diagnosed in China in 2016, according to the China National Cancer Center. Cancer remains a leading cause of death in China, where four people die of cancer every minute. China has a robust ecosystem that includes health care talent. Many scientists who trained and worked in the United States for decades are now returning to China as researchers and business entrepreneurs. Many doctors and researchers who return to China seek the influence and prestige of running their own labs.

India—India's pharmaceutical manufacturing sector has traditionally been focused on producing generic drugs and simple oral solids that are easy to manufacture, such as aspirin. Indian pharmaceutical companies now seek to pivot toward higher value products. We see early signs of consolidation among pharmaceutical companies in India. More complex products include respiratory inhalers that deliver medicine from a mechanical device; injectables that deliver medicine through a single use syringe; and biologics, which represent more complex proteins that interact in the body in a more natural way. [Asia Insight—Matthews Asia May 2019](#)

"The world's most precious resource is the persistent and passionate human mind."

"Do it by the book, but be the author."

"Without a target you'll miss it every time."

Disruption is a word with two meanings in Economics

Good: New innovative products such as Airbnb, Uber, that are good for the consumer

Evil: Thoughts of a Recession

Disrupters in Economic Recovery

- 1.) Brexit
 - 2.) Traditional War—China
 - 3.) Monetary Policy—Quantitative easing
- None of these disrupters will cause a recession.

Consumer Capitalism is positive.

It's Corporatism that is creating concern.

Socialism has never succeeded.

If Socialist Democracy is popular in a good economy what happens is weak economy.

Why are people so worried when unemployment is so low.

China Capitalism/Communism eventually will get dragged down by its own weight. (no competition)

Savings rate in USA 1959 was 8% average. April 2018 is 7% and moving up.

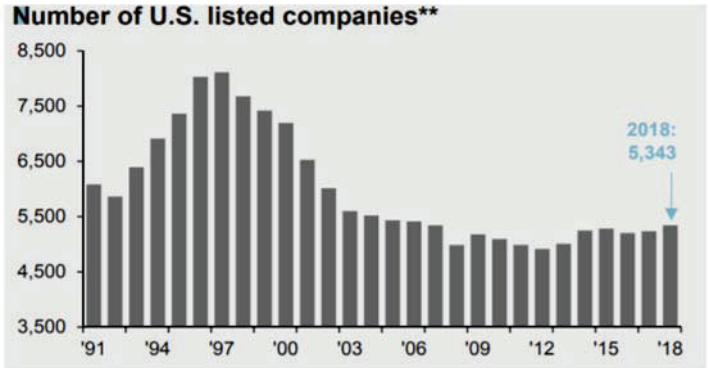
Economic expansion does not die of old age. They die of bad policy—Australia 30 years.

Marir Rossell—Economist

"If it were easy it would have been done already."

"Fail early, fail often, fail forward!"

Private Equity—New Small/Mid Cap Investing



Treasury Market Yields	6/30/2019	12/31/2018	12/31/2017
2 Year	1.75%	2.48%	1.89%
5 Year	1.76%	2.51%	2.20%
10 Year	2.00%	2.69%	2.40%
30 Year	2.52%	3.02%	2.74%
SP 500	1.91%	2.15%	1.89%
Commodities			
Oil (\$/bal)	\$58.47	\$45.41	\$60.42
Gold (\$/oz.)	\$1409.70	\$1278.30	\$1306.30
CRB Index	\$181.04	\$169.80	\$193.86

