DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
21,917.16	7700.10	2584.59	1153.10	6680.92	20.48	1.1034	0.70	0.00-0.25	3.75

Money Manager Newsletter
March 31, 2020
Investment Consulting Group, Inc.

"The Exact Wrong Time: If Fear Drives Your Investment Portfolio You Are Financially Doomed. You Will Never Have Investment Success"

Donald Stanforth, President Investment Consulting Group, Inc.

We are closely monitoring the unfolding COVID-19 (coronavirus) situation and its implications on our clients and portfolios. At the moment, it is too early to tell what the impact will be on broader portfolios over the long term. We have been in active dialogue with the managers in our portfolios and are monitoring potential risk exposures. The virus' impact on performance data is yet to be seen in most cases; however, the financing market has seen some recent pull-back, delaying certain transactions. From a geographic perspective, we anticipate that companies with significant operations in the countries currently hardest hit by the virus (China, South Korea, Italy, and Japan) should be prepared for a general slowdown. We believe some of the sectors that may be most impacted by COVID-19 in the near term include, among others; 1) travel-related businesses (including tourism, leisure and hospitality); 2) electronic equipment, technology hardware and other areas affected by supply chain disruption; and 3) retail and consumer businesses (including luxury goods and stores). Please do not hesitate to reach out.

A brief description of the four factors that we use to assess where we are in the stock market cycle:

Valuation

The S&P 500 median P/E ratio peaked in January 2019 at a 15 year high of 26.8. At the end of October 2019 the median P/E ratio stood at 23.4. Today, March 31, 2020, the estimated median P/E ratio is at 15.82. Nonetheless, equity valuations are cyclical in nature. They evolve from overvalued to neutral to undervalued during a typical stock market cycle.

Monetary Policy and Credit Conditions

The 30 year U.S. Treasury Bond yield reached its lowest level in modern history during August 2019, falling below a 1.50 percent yield. The decline in global interest rates produced an inversion of the yield curve in the United States. An inversion of the yield curve often precedes economic and stock market weakness. The lead time historically has been anywhere from six months to several years.

Sentiment

Optimistic investor sentiment reached its highest point ever in January 2018. This is a contrary indicator: When most investors are optimistic, we should be wary; when most investors are fearful, we should be looking to buy.

Momentum

When stock market momentum is strong, the market's advance is broad-based with the majority of sectors participating in the advance. When stock market momentum falters, it is indicated by a lack of broad participation. In the past year and a half, this is exactly what has happened: The major averages have made new highs unaccompanied by the broad list of stocks.

Summary and Conclusion

Equity valuations reached extreme optimism in January 2018. Although valuations are now more reasonable, the cyclical nature of valuations indicates that they likely will swing.
Investments & Wealth Monitor — Ricardo L. Cortex, CIMA

"It's the American way. If kids don't aspire to make money like I did what the hell good is this country." Lee Iacocca—Former Chrysler CEO 1924-20119

Politics and parties aside, stocks have performed better in election years when a sitting president is running for reelection. Since 1900 the Dow has gained 8.9% on average in election years when incumbents run for reelection versus just 5.1% when it's an open field. When they win, the Dow averages 10.5% compared to 4.3% when they lose. Regardless of which Party is victorious, the last seven months have seen gains on the S&P in 15 of the 17 presidential election years since 1950. One loss was in 2000 when the election's outcome was delayed for 36 tumultuous days, though the Dow did end higher. Financial crisis and the worst bear market since the Great Depression impacted 2008.

Bull markets tend to occur in the third and fourth years of presidential terms, while markets tend to decline in the first and second years. The "making of presidents" is accompanied by an unsubtle manipulation of the economy. Incumbent administrations are duty-bound to retain the reins of power.

Some cold hard facts to prove economic manipulation. Simulative fiscal measures designed to increase per capita disposable income providing a sense of well being to the voting public included: increases in federal budget deficits, government spending and Social Security benefits; interest rate reductions on government loans, and speed-ups of projected funding.

Federal Spending, Social Security, and Real Disposable Income, these moves were obviously not coincidences and explain why we tend to have a political (four year) stock market cycle.

In mid 2019 two dozen candidates are vying for the Democratic nomination. By mid-2020 the positive impacts of Trump's Tax Cuts and Jobs Act of 2017 signed into law December 22, 2017 may be wearing thin as the battle to unseat Trump comes to a boil. But you can bet the negotiator-in-chief will do everything in his power to manipulate the economy to stay in power and keep the stock market propped up by Election Day. Stock Traders Almanac

"People wait a lifetime for a buying opportunity like this" Mike Dana 2008

Debt

Americans are swimming in debt, but not drowning in it. Household debt hit $14.2 trillion in the last quarter of 2019, up $601 billion over the course of the year, the largest annual hike since 2007. That is 11.6 percent higher than the peak prior to the Great Recession. The thing is, that's not terrible. Less than 5 percent of outstanding debt was delinquent, and a mere 3.1 percent had payments over 90 days behind, compared to 11.9 percent delinquent in 2009 and 8.6 percent 90 days overdue. Indeed, people may arguably be acting a little too financially conservative. The personal savings rate is at 7.6 percent, which is well above the low of 2.2 percent notched in 2005, meaning that people are socking away a lot of money that otherwise could be invested in stuff like housing. As a child of the Great Recession, I 100 percent get this and it's rare that I feel so thoroughly seen by a statistic. Michael R. Strain, Bloomberg

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In June 2018, President Trump directed the Department of Defense to "begin the process necessary to establish a space force as the sixth branch of the armed forces." The reason for a space force is simple: space is the strategic high ground from which all future wars will be fought. If we do not master space, our nation will become indefensible. This lack of forward thinking can be put down to human nature and organizational behavior: people in bureaucratic settings tend to build what they have built in the past and defend what they have defended in the past. We have seen this kind of short-sightedness before. In the 1920's, the airplane and the tank were developed by the Army. Even the most respected military leaders at the time, Generals John J. Pershing and Douglas MacArthur, opposed independent development of the airplane and the tank because they saw them as subservient to the infantry. Infantry had always been the key to military success, and the generals' reputations were built on that fact. These generals defended the status quo even to the point of court martialing General Billy Mitchell, who had the audacity to say that the airplane was going to change the character of war and needed to be developed independently in order to achieve it's full potential. This type of status quo thinking in the 1920s resulted in needless loss of life during World War II. America's greatest competitor for the high ground of space is Communist China, which is already fully engaged in building effective space capabilities. America is not, and unless it gets off the mark soon, China will dominate the economy and domain of space. Today, while American is building lighthouses and listening stations that can see and hear what is happening in space, China is building battleships and destroyers that can move fast and strike hard, the equivalent of a Navy in space. China is winning the space race not because it makes better equipment, but because it has a superior strategy. The Chinese are open about their plan to become the dominant power in space by 2049. If China stays on its current path, it will deploy nuclear propulsion technology and solar power stations in space within ten years. This will give it the ability to beam clean energy to anyone on Earth and the power to disable any portion of the American power grid and paralyze our military anywhere on the planet. If we choose to compete with China in space, we have a cultural advantage. We are more creative and innovative than China, because we have an open society and free market. But we must be ambitious and act soon. Steven L. Kwast—Lieutenant General, United States Air Force (Ret.) Imprimis: Hillsdale.EDU January 2020

Stay ahead of the looming build in cash by staying invested. It is likely that depository balance sheets will face an influx of cash as customers are likely to move cash into the safety of insured deposit accounts. Loan demand is likely to fall as commercial loan customers rein in their investment/borrowing plans due an uncertain economic climate that could extend into late 2020. With mortgage prepayments poised to go 30-50% higher from here, depository investors should consider down in coupon swaps to lessen their earnings and prepayment exposure.

3/31/2020	Current P/E	VS	20 Year Avg. P/E
	Value	Blend	Growth
Large	12.2/13.6	15.4/15.5	20.1/18.9
Mid	11.6/14.2	14.5/16.1	21.4/20.6
Small	11.9/16.4	19.5/20.5	39.8/29.6

Most mortgage assets, holders of certain higher coupon MBS should consider selling those securities at gains/modest losses (before receiving what could be significantly higher prepayments at par) and reinvesting into lower coupon securities. FHN Financial—David Howard, CFA

- This is what I know will happen once this is over:
- The stock market will return the money you thought you lost and more.
- Children will go back to school.
- You'll go back to work.
- You'll be happy (somewhat) to wait at a restaurant for a table.
- You'll go to a sporting event and buy extra dogs, soda and beer.
- Maybe go to a concert or movies.
- Get on a plane.
- We will all be appreciative of Doctors, Nurses, Healthcare workers, Police, Fire, all who kept us safe.

Until then be patient, strong and safe! Internet

"A Government which robs Peter to pay Paul can always depend on the support of Paul".
George Bernard Shaw—Irish Dramatist 1856-1950

Everyday there is new economic data, so putting this newsletter in timely information is if not tough, it's impossible. The second issue is the economists I follow only talk about issues as of yesterday or today. Employment reports are only good for one day or a week as new unemployed figures and expert opinions are daily. The spread of awareness, social distancing and shut downs likely mean large parts of the country will be spared the worst. The Chinese companies are back in business as of this writing and stands as proof there is a way to return to productive output though there is no way to really know if the Chinese officials are truthful.
Donald Stanforth, President—Investment Consulting Group, Inc.

Treasury Market	03/31/2020	12/31/2019	12/31/2018
2 Year	0.23%	1.58%	2.48%
5 Year	0.37%	1.69%	2.51%
10 Year	0.70%	1.92%	2.69%
30 Year	1.35%	2.39%	3.02%
SP 500	2.41%	1.82%	2.15%
Commodities			
Oil ($bal)	$20.48	$61.06	$45.41
Gold ($/oz.)	$1583.40	$1519.50	$1278.30
CRB Index	$121.79	$185.79	$169.80