| DJ IA | Nasdaq | S & P 500 | Russell 2000 | MSCI EAFE | Crude Oil | Euro | 10 yr Treas. | Fed.Fund Rate | Prime Rate |
|---|---|---|---|---|---|---|---|---|---|
| 32,981.55 | 13,246.87 | 3,972.89 | 2,220.52 | 9,697.49 | 59.16 | 0.8524 | 1.74 | 0.00-0.25 | 3.25 |

# Money Manager Newsletter
# March 31, 2021
# Investment Consulting Group, Inc.

***"Money Is A Terrible Master But An Excellent Servant."***
***~P.T. Barnum~***

Most of us make the same mistake with our money over and over: We buy high out of greed and sell low out of fear, despite knowing on an intellectual level that it is a very bad idea. The easiest way to see this behavior in action is to watch money flow in and out of mutual funds. Let's go back to early 2000. The dot-com market people were using their home equity to buy tech stocks. Money continued to pour into stock funds, breaking records and pushing the NASDAQ to 5,000, only to lose half of it's value by October 2002. That same October (at the low for the cycle), as investors were selling stocks as fast as they could, where was all the money going? Into bond funds, at a time when bond prices were near record highs. Think about this pattern for a minute. At the top of the market, we can't buy fast enough. About three years later, at the bottom, we can't sell fast enough. And we repeat that over and over until we're broke. So do the things you need to do so you don't act on fear and greed. That could mean staying out of the kitchen, building guardrails, having a plan. I have found that just knowing this helps me behave bet-


In 2021 we continue to favor a more neutral stance between Growth and Value. The idea: one foot in the reopen trade with another still in the work from home trade. We expect the reopen trade to evolve as the vaccine rollout plays out in earnest and will look for opportunities to add to the more cyclically sensitive parts of the market.
Ex-US equities have underperformed US equities for the last several years. Historically, these cycles would last 3-5 years but the duration of this cycle has been significantly longer.
Growth vs. Value: Growth equities both in the US and Overseas have outperformed their value counterparts in a massive fashion over the last several years. In fact, growth has only been this expensive relative to value 2% of the time over the last 30+ years. Said another way, the spread between growth and value is almost as wide as we have ever seen it in terms of valuation.
David Herro—Oakmark Fund

Powell is not worried about inflation. He said prices might rise on stronger economic activity later this year, but price gains will not be large or persistent. He predicted the 25 year trend of low inflation will reassert itself quickly regardless. Bottom line: The fed is committed to keeping monetary policy easy for a long time, as it will be a long time before the economy recovers. Powell did not comment on the need or wisdom of another big stimulus, but is not concerned it will be inflationary if it does pass. The Fed will do what it can to return to full employment as quickly as possible, which is also the best thing the Fed can do to promote income equality. Still, no matter what the Fed does, the fastest recovery will come with the best possible vaccine deployment.
Chris Low

**China Is The Last Man Standing**
Emerging markets have too much of one factor of production (i.e., cheap labor) and too little of another (i.e., intellectual capital, intangibles, and technology). In more conventional times, less developed economies started with the abundant factor (usually labor or basic resources) and used it to attract the scarce one. This optimization was the essence of mass migration from overcrowded Europe to the New World in the 19th to early 20th centuries. Unfortunately, we do not live in conventional times. Today, the value of labor inputs is declining, and the importance of labor arbitrage is diminishing even in the highly labor intensive industries as the role of robotics and automation continues on a steep upward trajectory. China, however, is very different. It has aging demographics, and therefore it is not compelled to create millions of jobs. It also has a much deeper pool of intellectual and intangible capital than the entire EM universe combined. China is building an impressive array of intellectual assets, boasts a deep domestic market, benefits from strong monetary sovereignty, and has ample capacity to pursue localized fiscal and modern monetary theory. In the past two centuries, less developed economies grew by using abundant and cheap labor resources and basic commodities to attract foreign capital, technology, and know how. The declining ability to leverage global demand through globalization, trade, and manufacturing means that only a few avenues remain for EMs to accelerate per capita gross domestic product (GDP), namely the size of the domestic market becomes incredibly important, and it is an advantage for China, India, and to some extent Brazil, but it likely will become a disadvantage for most other smaller emerging economies such as Malaysia, Philippines, or Thailand. As manufacturing and trade changes, the larger domestic markets will command a premium. China, however, is in a class of its own. In the past three decades, China has emerged as the world's largest manufacturing and trading economy, as well the key driver of global saving rates, commodity prices, etc. Growing deglobalization, technological disintermediation, political backlash against globalization among developed economies, and geopolitical pressures might suggest that China is transiting from being the greatest beneficiary of globalization to becoming its most significant loser. But we disagree with this argument. China has a large domestic market. The information age will favor countries with significant local markets, and no other EM even approaches China's US $5 trillion—$6 trillion in domestic consumption. A significant part of that consumption is driven by external demand, but in the past decade, China's market has become much more localized. China has the right demographics for the information age. Its cohort of under 15 year old's peaked about 40 years ago at around 370 million (or 35-40 percent of China's population at the time). Today, it stands at 255 million and is expected to drop to about 200 million by 2040. China is the only major developing economy that is succeeding in building a broad range of intellectual and intangible assets. China is already responsible for 17 percent of global R&D and close to a 25 percent share in terms of purchasing power parity. Although most investors argue that one cannot ignore the world's second largest economy and least correlated market, we disagree. China can be ignored, and China itself might eventually view this as the best "dual circulation" outcome. Barring this somewhat extreme but plausible scenario, we remain comfortable arguing that China is the best and arguably the only viable EM market, and we continue to recommend keeping investments focused on the information and new materials age sectors rather than state driven cyclicality themes.
Viktor Shvets—Investments & Wealth Monitor

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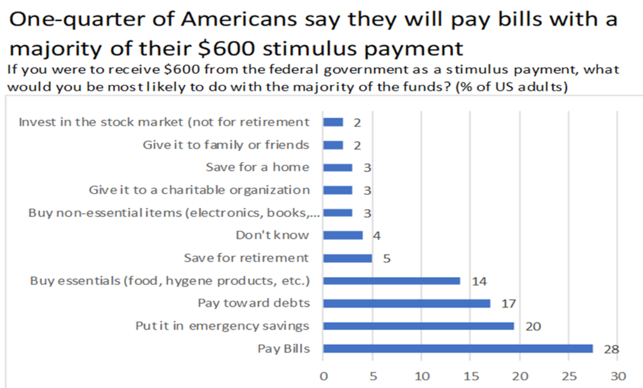


**The Return of Inflation—First Trust Advisors, LP**

Inflation is not dead. It is not gone. It has not been tamed. We know it seems like it, especially after the past few decades which generated in many an "inflation-complacency" that feels justified. After all, following the 2008 Financial Panic, many predicted Quantitative Easing would cause hyper-inflation. When the Fed boosted the Monetary Base by more than $3 trillion dollars during Quantitative Easing 1, 2 & 3, and the federal budget moved to a huge deficit, gold and silver commercials proliferated. So did predictions for a collapsing dollar. But inflation never came. Since the end of the 2008-09 financial panic, the Consumer Price Index has increased by an average of just 1.7% per year, falling short of the Fed's (conjectural) 2% target. So, what happened? The answer: Boosting the monetary base is not the same as boosting the amount of money circulating in the economy. Milton Friedman taught us to watch the M2 measure of the money supply We find this impossible to believe. In fact, we think many are living in denial. Inflation is already on the rise. In the past six months, the Consumer Price Index is up 3.6% at an annual rate and if it rises a modest 0.2% per month between January and May, it will be up 3.4% over 12 months. Part of this is because COVID shutdowns led to weak inflation in early 2020, but we expect inflation to move higher in 2021. But in addition to M2 growth, incomes and savings have increased, while production has not. Demand is exceeding supply. All personal income combined, wages & salaries, employee benefits, small business income, rents, interest, dividends, and transfer payments was up 6.3% in 2020 versus 2019. Total after tax income was up 7.2% in 2020, the most for any year since 2000. Americans saved about $2.9 trillion in 2020, more than doubling the previous record high of $1.2 trillion 2018. As of the third quarter of 2020, the amount Americans held in checking accounts, savings accounts, time deposits, and money market funds was up $2.8 trillion from the year prior. Add another $1.9 trillion in federal government stimulus spending (borrowing from the future, to spend today) and the US is awash in cash, much of which is funded by Washington's money printing. We an see the impact of this affecting markets. Bitcoin, while we doubt it will ever be real money, hit a record high today reflecting fears of lost dollar purchasing power. All this money printing threatens to eventually create a sugar high in equites. We aren't there yet, but markets are floating on a sea of new money. In fact, it's more like a tsunami! Inflation hedges (real estate, commodities, materials companies) will do well. Traditional fixed income (long-term bonds) is at a risk.
Brian S. Wesbury-Chief Economist; Robert Stein, CFA-Deputy Chief Economist

| 3/31/2021 | Current P/E | VS | 20 Year Avg. P/E |
|---|---|---|---|
| | Value | Blend | Growth |
| Large | 18.2/13.7 | 21.9/15.4 | 29.2/18.5 |
| Mid | 18.9/14.4 | 22.5/16.3 | 36.5/20.3 |
| Small | 19.1/16.8 | 30.9/21.1 | 85.6/35.2 |

**J. P. Morgan Market Commentary**

- Lots of cash on sidelines looking for:
  1.) Will we beat COVID
  2.) Clarity on the political situation
- The Stock Market is forward looking. It can deal with difficulty. It can deal with uncertainty. Why was the market up 18% last year? Because it knew this year would be better than last year.
- TINA—There Is No Alternative. Cash as a % of assets on corporate balance sheets, is better than any year since the 1950's.
- What about the bubble? Market looks really expensive
- In a low interest rate environment, the market can support much higher valuations.
- Given the low interest rate environments, we could see P/E's inch up to 29x.
- Predicts Growth will continue to outperform for 3 more years.

Josh Feuerman—J.P. Morgan

I think that a recovery will mean a different market environment than what we have seen in the last several years. This will surprise investors who have become very overconfident in the winners of the last cycle. It doesn't mean that the major trends which everyone points to as the rationale for those winners are ending, just that investors on average don't realize how important the market environment was to the stock returns for those companies. It's true in every cycle. So, in this switch, I'm confident that the prior "have nots", especially foreign stocks, will do better in relative terms at least. Especially early on in a recovery, market returns tend to be good. Then after that there are usually disappointments and new events for the market to focus on. I think we're still early in this recovery market. It's worth pointing out that historically any switch away from hyper growth excitement brings the chance of a market drawdown. Essentially the volatility stays but the positive returns become negative ones. I don't know if that's likely to happen soon or not. It would be odd for it to happen during a recovery, so maybe it keeps going until a disappointment shows up. I think we'll know it when we see it, and at that point it will be time to believe that a change has happened. Thinking about value stocks, having better relative returns unfortunately doesn't mean positive returns necessarily if the market turns down. However, history also shows that once the post growth drop is done there is an extended period where value stocks can see good relative and absolute returns. The current situation of very expensive growth stocks and very cheap value stocks will likely require years to reset to a more average relationship. Mark Zavanelli—Lyons Investment Management

| Treasury Market Yields | 3/31/2021 | 12/31/2020 | 12/31/2019 |
|---|---|---|---|
| 2 Year | 0.16% | 0.13% | 1.58% |
| 5 Year | 0.92% | 0.36% | 1.69% |
| 10 Year | 1.74% | 0.93% | 1.92% |
| 30 Year | 2.41% | 1.65% | 2.39% |
| SP 500 | 1.48% | 1.60% | 1.82% |
| **Commodities** | | | |
| Oil ($bal) | $59.16 | $48.52 | $61.06 |
| Gold ($/oz.) | $1713.80 | $1893.10 | $1519.50 |
| CRB Index | $184.96 | $167.80 | $185.79 |