DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
33,843.92	14,448.58	4,307.54	2,204.37	10,183.52	75.03	0.8638	1.52	0.00-0.25	3.25

Money Manager Newsletter
September 30, 2021
Investment Consulting Group, Inc.

"If You Put The Federal Government In Charge Of The Sahara Desert, In 5 Years There'd Be A Shortage Of Sand"

~Milton Friedman~

Three Principals to Remember

1.) Do not take stock tips from people whose investing prowess is unknown to you, this is gambling, not investing. Buy what you know and companies you've researched according to your discipline.

2.) Absolutely do not, ever, chase stocks you believe you should have bought and didn't. If you missed a stock at a lower price are distressed by watching it rise, resist the temptation to chase it. When the market is rising or falling, the longer it does so the greater the probability it will cease doing so (or revert to the mean), but the average investors has a hard time acting on this knowledge.

3.) Learn to leverage your natural expertise and preferred discipline. Trust yourself. Investing, I have learned, produces a perpetual state of dissatisfaction. If I brought shares and they declined, I bought too much. If I sold and the shares appreciated, I sold too much too soon. But over the long term, we know that being invested in great companies we can own for a lifetime will cover many errors and produce compelling returns. Nancy Tengler—Laffer/ Tengler

Using data from the New York Stock Exchange, Reuters calculates that the average holding period for US stock ownership has fallen to under six months. While falling for decades, the decline in holding periods has accelerated in recent years. Twenty years ago, the average hold time was 14 months. Back in the 60s and 70s, however, it was routine for investors to hold stocks for five to eight years, on average. A big reason for the decrease is the price of equity trades, which are now free at most brokerages. Enhanced user interfaces have reduced trading friction, making the buying and selling of securities as easy (and fun) as playing a video game. Investment Insights—First Fiduciary Investment Counsel, Inc. August 2021

Our excess-mortality model suggest that 9m-16m people have died in the pandemic. The central estimate is 14m. The developing world is vulnerable to the virus, especially lower-middle-income countries where remote working is rare and plenty of people are fat and old. If you strip out China, non-rich countries have 68% of the worlds population but 87% of it's deaths. Since emerging markets have less room to spend their way of out trouble. Medium-term GDP forecasts for all emerging economies are in aggregate 5% lower than before the virus struck. People are angry and, even though protesting during a pandemic is risky, violent demonstrations around the world are more common than at any time since 2008. Rich places, such as America and Britain, are no strangers to incompetence and turmoil. But disappointment has hit emerging economies especially hard. Faced with this grim landscape, emerging markets may themselves be tempted to abandon open trade and investment. That would be a grave error. An unforgiving global environment makes it even more important for them to stick to policies that work. Turkey's notion that raising interest rates causes inflation has been disastrous; Venezuela's pursuit of socialism has been ruinous; and banning foreign firms from adding customers, as India just has with Mastercard, is self-defeating. When catching up is hard, those emerging markets which stay open will have the best chance. The principles of how to get rich remain the same today as they ever were. Stay open to trade, compete in global markets and invest in infrastructure and education. The Economist—July 31, 2021

Put it all together and what we have is a country that is spending too much time thinking about the government, which means less time thinking about innovation or producing goods and services that people really want. Hopefully, in the years ahead, we can focus more time on economic creation, and less time on thinking about government policy. First Trust Outlook—August 9, 2021

Money is only valuable to the extent that it can be used to meet an individual's goals, needs for today, or desires for the future; housing, food, a tuition payment, a donation to a charity, an inheritance to family in the hopes that they will be able to do something productive with it. In this context, as long-term investors focused on preservation of capital, inflation is always top of mind for us. As Milton Friedman said, "Inflation is the one form of taxation that can be imposed without legislation." Put in tangible terms, "Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair." Or, different context, the cost of college tuition has increased by approximately 2000% for private institutions and 3000% for public institutions in the past 50 years. "2021 Outlook: Reopening, Recovery, and Growth," cyclical recoveries tend to produce the highest inflation readings historically. So far, this cyclical recovery is no different. As the U.S. government sought to combat a surge in unemployment with exceptional fiscal firepower, the consumer saving rate hit a record high. Positioning portfolios for increasing prices during economic recoveries depends upon the level of inflation. High inflation, or inflation above 4.0%, during an economic expansion tends to see commodities deliver the strongest returns. If one knew that inflation would be high and continue to rise, commodities would be the top choice. Since World War II, commodities have performed the best, possessing the highest returns and highest hit ratios for positive returns. One of the biggest drivers of performance is overall asset allocation strategy, how much we allocate toward risk assets, such as equities, versus more protective assets, such as bonds. Earlier in the year, with greater confirmation of a path to recovery, we reduced our target weights to high-quality bonds and shifted to an overweight position in equities. Since then, earnings have significantly beat expectations, and we expect earnings forecasts and results to continue to rise over the course of the year. Bessemer Trust—Third Quarter 2021

The temptation to blame the Fed whenever inflation crops up is partly self-inflicted. The Fed has overstated its power over inflation for years, but the fact inflation is much tamer in countries with similar monetary policies but more restrained fiscal policy, like the UK an EU nations, suggests the Fed is not the primary source of the problem. Still, it is reasonable to ask why the Fed thinks monetary policy still needs to be as accommodative as it was last year despite the past year's wave of fiscal support. After all, the Powell Fed was quick to tighten after much smaller stimulus in 2019. The answer is twofold. First, the Fed's policy review was partly in response to the realization policy was too restrictive in 2019 and second because the Fed expects fiscal stimulus to fade in coming months and there are still many millions of people yet to return to work. The Fed's mandate is stable prices and maximum employment, after all. Maximum employment is the sticking point preventing both a reduction in a quantitative easing and fed funds rate hikes. Chris Low; Chief Economist—FHN Financial

For everyone but pension plans, bonds are tough to own here. It is difficult to find a path to solid returns in bonds over the next three to five years on a nominal basis, never mind the likely negative return after inflation. It isn't necessary to make wholesale changes to your portfolio, but you can certainly add value around the edges. Thinking ahead, emerging technologies and trends will add incremental returns to your portfolio. While it may not be fully implemented for decades, invest in the critical suppliers and technology necessary to build electric vehicles (EVs), solar panels or wind energy. Exchange-traded funds (ETFs) that invest in industrial metal like copper, which is important for EVs and solar panels, which also use silver, silicon and zinc. Nancy Tengler— Laffert/ Tengler

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Seven Possible Causes of the Next Financial Crisis

The great financial historian, Charles Kindleberger, pointed out in the 1970s that over several centuries, history showed there was a financial crisis about once every ten years. His observation still holds. What could cause the next crisis in this long, recurring series? I suggest seven possibilities:

1.) What Nobody Sees Coming

A notable headline from 2017 was "Yellen: I don't see a financial crisis coming in our lifetimes." The then, head of the Federal Reserve was right that she didn't see it coming; nonetheless, well within her and our lifetimes, a new financial crisis arrived in 2020, from unexpected causes. "The riskiest stuff is what you don't see coming." The Global Financial Crisis of 2007-09, a former Vice Chairman of the Federal Reserve candidly observed: "Not only didn't we see it coming," but in the midst of it, "had trouble understanding what was happening." The next financial crisis could be the same. The 2007-09 crisis, former Secretary of the Treasury Henry Paulson wrote, "We had no choice but to fly by the seat of our pants, making it up as we went along." The next financial crisis we don't see coming, the government reactions will once again be flying by the seat of their pants.

2.) A Purely Malicious Macro-Hack of the Financial System

We keep learning about how vulnerable to hacking, especially state-sponsored hackers, even the most "secure" systems are. I am not considering a hack to make money or collect blackmail, or a hack for spying, but a purely malicious hack with the sole goal of creating destruction and panic, to cripple the United States by bringing down our amazingly complex and totally computer-dependent financial information systems. Suppose when they strike, trading and payments systems can't clear, there are no market prices, no one can find out the balances in their accounts or the value of their risk positions, and no one knows who is broke or solvent.

3.) All the Central Banks Get It Wrong Together

We know that the major central banks operate as a tight international club. Their decisions are subject to vast uncertainty, and as a result, they display significant cognitive and behavioral herding. I read somewhere the colorful line, "Central banks have become slaves of the bubbles they blow." "Every great crisis reveals the excessive speculations of many houses which no one before suspected."

4.) A Housing Collapse Again

The price of houses, which are the biggest investment most households have and are the mortgage collateral for the biggest loan market in the world. House prices are now rising in the U.S. at the unsustainable rate of more than 18% a year, but this is also global problem. Many countries, about 20 by one reckoning, face extreme house price inflation. Overpriced, leveraged real estate is a frequent culprit in financial crises. Maybe once again.

5.) An Electricity System Failure

Imagine a failure, similar to our financial system macro-hack scenario, resulting from an attack maliciously carried out to bring down the national electricity system. Physically speaking, the financial system, including of course all forms of electronic payments, is an electronic system, utterly dependent upon the supply of electricity. Should that fail, it would certainly be good to have some paper currency in your wallet. Bank accounts and cryptocurrencies will not be working so well.

6.) The Next Pandemic

It feels like we have survived the Covid pandemic and the crisis is passing. Even with the ongoing problem of the Delta variant, we are certainly more relaxed than at the peak of the lockdowns of 2020. But what about the next pandemic? We have discovered that to combat a pandemic, governments can close down economies. Might a new pandemic be much more deadly than Covid? Consider Professor Adam Tooze: "One thing 2020 forces us to come to terms with is that this wasn't a black swan (an unknown possibility). This kind of pandemic was widely and insistently and repeatedly predicted." What wasn't predicted was the political response and financial panic. "In fact," Tooze continues, "what people had predicted was worse than the coronavirus."

9/30/2021	"Current P/E" / "20 Year Avg. P/E"		
	Value	Blend	Growth
Large	15.8/13.7	20.3/15.5	28.6/18.5
Mid	16.0/14.5	20.0/16.4	35.3/20.4
Small	16.8/17.0	25.4/21.4	50.5/35.5
J.P. Morgan Asset Management			

7. A Major War

By far the most important financial events of all are big wars. A sobering talk I heard a few years ago described China as "Germany in 1913." This of course brings our mind to 1914. The incredible destruction then unleased included a financial panic, and the war created huge, intractable financial problems which lasted up to the numerous sovereign defaults of the 1930s. What if a big war happened again in the 21st century? One scholar, Graham Allison of Harvard, has written: "A disastrous war between the United States and China in the decades ahead is not just possible, but much more likely than most of us are willing to allow." A particular point of tension is the Chinese claim to sovereignty over Taiwan. Might a Chinese decision to end Taiwan's freedom by force be the equivalent of the German invasion of Belgium in 1914? Would anyone be crazy enough to start a war between China and the United States? We all certainly hope not, but we should remember that such a war did already occur: most of the Korean War consisted of battles between the Chinese and American armies. "The Chinese viewed Korea as a great success," and that Mao "had shrewdly understood the domestic benefits of having his county at war with the Americans."

"We have discovered that to combat a pandemic, governments can close down economies and cause massive unemployment and economic disruption. Would they do that again, or something else?"
Alex J. Pollock—Law & Liberty; September 13, 2021

Chinese President Xi Jinping is remaking the Chinese economy. The new Chinese way will be Socialist. His vision is a throwback to Maoism, a fulfillment of China's promise to the poor and rural masses to use capitalism to transition from poverty to global giant, and then to restore socialism to spread the wealth to the people. In practical terms is the end of massive, private companies making a few people into billionaires in favor of a new focus on small to midsized companies and large state-owned enterprises. Phil Reed

China—Average holding period for Chinese individual investing is 17 days. International ownership is 5%. The average is 20%. D.I.N.K.s — Dual Income, No Kids. T. Rowe Price

Stock Market Drop: People were buying the dip even before the close, prompting Bloomberg's daybreak to note the TINA stock trade, THERE IS NO ALTERNATIVE to stocks, is alive and well.
Donald Stanforth—President, Investment Consulting Group, Inc.

Treasury Market Yields	9/30/2021	12/31/2020	12/31/2019
2 Year	0.28%	0.13%	1.58%
5 Year	0.98%	0.36%	1.69%
10 Year	1.52%	0.93%	1.92%
30 Year	2.08%	1.65%	2.39%
SP 500	1.34%	1.60%	1.82%
Commodities			
Oil ($bal)	$75.03	$48.52	$61.06
Gold ($/oz.)	$1755.30	$1893.10	$1519.50
CRB Index	$228.92	$167.80	$185.79